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*** Finance Minister on Kupa Program, Csurka**

93CH0406A Budapest MAGYAR HIRLAP in
Hungarian 13 Feb 93 p 4

[Interview with Ivan Szabo, recently appointed finance minister, by unidentified reporter on 12 February; place not given: "Ivan Szabo: I Do Not Believe in Stimulation"]

[Text] *In the spirit of the Kupa Program we must do some further thinking in the framework of today's realities, according to the finance-minister designate in his statement yesterday to MAGYAR HIRLAP. According to Ivan Szabo, the Finance Ministry is directing economic processes, and therefore there is no need for a peak economic ministry.*

[MAGYAR HIRLAP] In a real economy the stock market should indicate how business receives a new finance minister. How were you received?

[Szabo] I'm sorry, there is no such indication in this country.

[MAGYAR HIRLAP] Why were you chosen to become the finance minister, and what is the thing you are going to do that Mihaly Kupa would not have done?

[Szabo] I do not believe that it would be worth our while analyzing this. One can sense two things based on Kupa's Thursday press conference. First, that he, too, sensed that his independence did not provide sufficient stability for his position during the period preceding the elections, as it would to a member of the coalition. And second, the debate among the economic ministers went on in public, and the prime minister had difficulty tolerating such debate. One can argue about everything in the government, but only until a decision is made.

[MAGYAR HIRLAP] Are you saying this despite the fact that you agreed with the former finance minister on many things?

[Szabo] Yes, it should be clear that I did not have many differences with him, and in most instances our cooperation was undisturbed. I would be truly happy if I, as finance minister, had such a relationship with the person who takes my place as industry minister.

[MAGYAR HIRLAP] There is a pending question: Is the Finance Ministry going to become an economic peak ministry, the kind Mihaly Kupa announced, but the prime minister did not announce.

[Szabo] There will be no economic peak ministry designated as such. One thing should be clear: A condition under public law, with its own institutional system, has been built up here. Accordingly, a change like this prior to the elections would be inconceivable, because that would amount to a full change in the structure. I would add: The actual directing of the economy has always been and continues to be performed by the finance minister. The prime minister often makes reference to

the fact that this arrangement has been in existence since Sandor Wekerle (the finance minister prior to World War I).

[MAGYAR HIRLAP] Let us return to the issue concerning Mihaly Kupa's refusal to artificially stimulate the economy in order to improve the standard of living, even in the face of the approaching elections. Are you going to implement such measures?

[Szabo] No, I do not believe in artificial stimulation. At the same time, certain processes must be aided. For example, small and medium-size entrepreneurs must be provided new loan structures, and agriculture must be helped by providing a mortgage-lending institutional system. Credit consolidation must be continued rapidly and stubbornly...

[MAGYAR HIRLAP] ... and so does the consolidation of the state household. But what does the IMF have to say to all this?

[Szabo] When we argue with the IMF about the deficit, we should clarify whether we argue about the absolute amount of the deficit, or about the allowable percentage of the deficit as part of the GDP. In the latter case we should define the per capita amount of the GDP, whether it amounts to \$3,000 as Gyorgy Suranyi claims, or if it amounts to \$7,000. In other words, I feel that our official view of the economy is worse than the actual condition of the economy. This issue must be approached from two sides: Are we able to project an authentic picture with our statistical and information system, and, if so, we could, conceivably, amply comply with the IMF requirements. At first the "what" and "how much" issues should be clarified, and only after that should we find out the cause of the deficit. Whether the deficit is caused by absolutely futile expenditures used to conserve a system, or if we are expending more money because we are playing the role of a midwife at the birth of some new, viable structure, by providing infrastructural and other investments.

[MAGYAR HIRLAP] What part of the Kupa program do you adopt?

[Szabo] I think I accept its concept and its line of thought. This is influenced by recognitions and prognoses already stated in the industrial policy concept, and by measures and methods intended to accelerate privatization. Consistent with the spirit of the Kupa Program we must do some further thinking in the framework of today's realities.

[MAGYAR HIRLAP] As long as we are dealing with current affairs, what do you have to say to a statement by Istvan Csurka, according to which the budget is going to collapse within two or three weeks?

[Szabo] This is consistent with the commiserations of certain left-wing and extreme right-wing politicians.

[MAGYAR HIRLAP] Are you planning to make some changes in the Finance Ministry, and who is going to be the new minister of industry?

[Szabo] I do not plan to make further changes at the Finance Ministry, and I have already submitted four names to the prime minister as potential industry ministers.

*** Use of Interpellations as 'No Confidence' Vote**

93CH0406B Budapest HETI VILAGGAZDASAG in Hungarian 13 Feb 93 pp 76-77

[Unattributed article: "Ministers Voted Down; Noble Gentlemen"]

[Text] In which member of the cabinet has parliament's confidence been shaken most often? In examining the performance of ministers in response to interpellations in parliament, we tried to find at least a partial answer to this question just before the revamping of the Antall cabinet. Participants in the coalition talks were not willing to make statements as of press time.

As compared to the government spokesman's statement three months ago, when he tried to portray a NEPSZABADSAG article regarding a cabinet change as an ordinary rumor designed to increase circulation, the prime minister appeared to be working rather hard during the past few days on changing the cabinet. Since the coalition would appear to have a chance to muster only 20-25 percent of the votes if the elections were held today (HVG 19 December 1992), it undoubtedly is in the interest of the right-of-center power not to delay entrusting the country's direction to a more successful team in the final third of its term of governance. The extent to which the cabinet is going to be able to rid itself from worn-out members could obviously influence the 1994 election prospects. The way the holders of the velvet chairs stand up when the legislature bombards the directors of the executive branch with interpellations should certainly be revealing of the performance of cabinet members in parliament.

In about 500 exchanges in the form of interpellations since May 1990, parliament has rejected responses by cabinet members questioned in 35 instances (and in four more instances it rejected responses given by the supreme prosecutor). Since in the middle of 1990 the then new house of representatives eliminated the possibility of introducing no-confidence motions against ministers (this parliamentary procedure had been part of the Constitution for only 13 months, from May 1989 until June 1990), rejecting the ministers' responses has not been an overly risky undertaking. By now, being voted down represents only a moral defeat from the standpoint of a minister, and indirectly, from the standpoint of the head of government who bears political responsibility for his cabinet. The significance of such moral burden cannot be disregarded in a year preceding the elections, of course.

In any event, interpellations resulting in voting down members of the cabinet indicate that the majority voting machine does not operate automatically in the Hungarian parliament, by far. Such government fiascos could not even occur if all coalition representatives were loyal. The fact that members of the cabinet active today were voted down 33 times, and that ruling party representatives initiated the questioning in 10 instances, deserves special attention. It might not be an exaggeration to say that, by now, interpellations have become in essence substitutes for no-confidence motions, the outcome of which—in terms of votes cast—could be influenced by the conduct of a representative lobbying for his own voting district, just as by political battles raging inside the government. A particularly delicate aspect of the latest "funeral rite" of Tamas Szabo—who certainly leads the list of ministers who failed the largest number of interpellation tests—was that a politician belonging to the closest circle of the prime minister, a representative linked to the MDF's [Hungarian Democratic Forum] Csurka wing by the name of Istvan Balas, was the one who raised the question, moreover on grounds of such compelling evidence that parliament rejected the privatization minister's response with an unprecedented ratio of negative votes (altogether 22 "yes" votes against 155 "no" votes). The case involved a suspect privatization transaction in Miskolc whose facts could not be disputed.

Environmental Protection Minister Sandor K. Keresztes proved to be the other negative hero of the Tuesday afternoons reserved for interpellations. A career that once had a promising start (in 1989—this politician's age of splendor—when he also served as an MDF vice chairman), appears to be endangered not to the least by FIDESZ [Federation of Young Democrats] Representative Janos Pap, regarded as the "phantom of ministers," the "interpellation phenomenon itself": the young representative who specializes in environmental protection has himself cornered the first man of the Environmental Protection Ministry three times in the plain view of parliament. Probably the most important question concerning K. Keresztes' continued career is whether there is a link between the indelible and mysterious smile of the minister who had been voted down twice, and the press interviews given by the representative's father, Ambassador to the Vatican Sandor Keresztes, which attracted attention in recent weeks. These press interviews appear to serve as reminders for the prime minister about some secret bargain, promises made to the chairman of the KDNP [Christian Democratic People's Party], who resigned his chairmanship or was removed under pressure from Jozsef Antall.

Comparing the list of ministers regarded by the daily press for weeks as having uncertain positions, with the interpellation list appearing on page 77 [not reproduced here], we may notice the prominent place occupied by Elemer Gergatz among the ministers who had been voted down. At the same time, the velvet chair is presumably also shaking under several other ministers

(e.g. Bertalan Andrasfalvy, Balazs Horvath), although they have not yet lost out in the verbal battles of interpellations in parliament. The chief argument for their possible dismissal could be loss of prestige in addition to faint performance in government. For arguments sake, let us say that the fact that a few weeks ago, Balazs Horvath, the former interior minister—the No. 2 man in the MDF barely a year and a half ago—was unable to win a place in the 20-member presidium of his party must also play a role in his possible removal. He came in 28th in the elections held during the January MDF national congress. The only other MDF minister aspiring for presidium membership who came in behind Horvath was Bertalan Andrasfalvy; he ranked 31st, and this made it obvious that he was not overly popular even within his own party.

* Survey of Drug Trade, Enforcement Measures

93CH0399A Budapest MAGYAR NARANCS in
Hungarian 4 Feb 93 pp 14-15

[Report by Janos Todor: "Drug Trade: The Balkan Route"]

[Excerpt] [Passage omitted] "One hundred and fifty kilos of heroin leave Istanbul every day" says the young Customs and Internal Revenue Police lieutenant from the drug unit. He insists on remaining unidentified because "it has happened that customs officers have received death threats."

Ninety percent of the European drug trade—the annual profits of which are estimated to be \$250 million—takes place along the Balkan route. The lieutenant does not "specifically" know whether any laboratories are operated in Istanbul, but it is a fact that the largest distribution centers (depots) are located there.

The material arrives through the Kurds. Experts differentiate between northern, middle, and southern directions of the Balkan route. Since the war, the southern one, which leads from Turkey through Bulgaria and Yugoslavia to Austria and farther to West Europe, has been avoided by truckers and, consequently, by smugglers. It was after Yugoslavia's breakup that Hungary was promoted from standby route to transit route number one.

Until 1992, the Customs Police was involved in drug investigation only on paper, "at the protocol level," as the lieutenant puts it. But as Hungary became a prime drug-smuggling route, things needed to be changed. A drug investigation unit was established last April within the Special Cases Department. It is a kind of action team of five or six officers, going to Roszke, Hegyeshalom, or Biharkeresztes—wherever it is needed. They have not yet apprehended any Hungarian perpetrators on the Balkan route (they have been apprehended abroad) but have caught several Turks. For drug smuggling with trucks is a 99-percent Turkish monopoly.

Our lieutenant was personally involved last summer in the greatest Hungarian catch. The customs people moved to Fules, and in Roszke found 19.8 kilos of heroin in a Turkish refrigerated truck, loaded with cucumbers and headed from Bursa to Munich. It was hidden in the ceiling. Since control became stricter in Hungary, the mafiosi have started another route. The trucks are shipped from Istanbul to Konstanta, then enter Hungary at Nagylak, Gyula, or Biharkeresztes.

Romania has officially stated that it is not involved in drugs. Bulgaria, which had the best record in the former Eastern bloc (even a museum was created in Kapitan Andreyev for showing off), has nowadays "become more lax." "Or perhaps more corrupt?"—ventures the lieutenant. The Germans, who confiscate heroin by the ton with the help of their modern scanning equipment, are the ones who really know what passes through the countries along the Balkan route.

Even our lieutenant's wife has already asked him why they are not equipped with modern technology if this is really such a problem. He replied by saying that, first of all, they do not have the money for it. And then, confiscated drugs are not like a confiscated car, alcohol, or pelts: They cannot be sold. They are destroyed in Chinoin and Pharmafontana [pharmaceutical companies]. They have no pharmaceutical use because of their inferior quality. Incidentally, the Roszke bounty could have filled the needs of the pharmaceutical industry for several years.

Most uncovered cases are the result of international cooperation. In 1988, Hungary also signed the International Drug Accord of Vienna, which to date, however, has not been ratified—i.e., made into an internal statute. As there is no police law, there is no drug law (to the regret of not only policemen but also users).

International information exchange is done through Interpol's Hungarian National Office. Contrary to public belief, the Interpol does not conduct investigations; on the other hand, it routes information in concrete criminal cases (both in accomplished and planned ones). Interpol's Hungarian connection in drug cases is Lieutenant Colonel Eva Rozsa. She was the first Hungarian police officer to receive training at DEA (U.S. Drug Enforcement Agency).

The lieutenant colonel knows everything there is to know about drug trade from the side of the police. Perhaps this is the reason for her skepticism. She does not see any chance for us to avoid the drug problem. She says that we must accept it just like other deviant behavior, crime, or alcoholism. At most, we can set the goal of learning how to deal with it.

This is one reason why she likes the pragmatic drug policy of the Dutch. Since there is no way to keep people

off drugs, they are trying to at least keep drugs under control and steer interest away from hard drugs toward softer ones.

Police officers are distributing intravenous needles at the Amsterdam police headquarters, and drugs of the hemp, hashish, and marijuana type can be bought in about 200 cafes and shops. The law distinguishes between user and dealer: Possessing 30 grams of hemp is not against the law.

Though they strongly favor prohibition, Italians distinguish between kind and volume. Up to a point, a user who is caught may choose between a prison term and voluntary rehabilitation treatment.

Lt. Col. Gyorgy Hollosy, head of the Drug-Related Crime Department of the "Hungarian FBI" (i.e., the Organized Crime Department of the National Police Headquarters), does not think the liberalism of the Dutch, British, or Swiss is viable. He thinks that police and penal policies can only be viewed together. No loopholes should exist. He thinks that use is an integral part of drug-related crime: "Those who smoke their first marijuana cigarettes automatically become potential criminals because they must find a way to pay for them. And in most cases, a drug addict finances his consumption with money originating from crime."

Nevertheless, he thinks that the example of the Dutch is "nothing to scoff at" because, after all, they did score some success by legalizing soft drugs. In and around Amsterdam, the number of drug-related criminal acts has decreased, and a lower number of drug addicts die. Since one can buy grass in cafes, the clashes between gangs that control the hemp market have become less frequent.

However, this may be good for them, but it is bad for us (and for other recipient countries). For three-fourths of the hemp products that are available in Hungary come from Holland. (We are not yet a major market for heroin, although dealers have already been spotted not only in Budapest but also in cities along the highway leading to Gyor [Balkan route].)

Had the Dutch authorities prosecuted users of hemp derivatives, it would presumably have been much more difficult for the supply market, i.e., the stratum that uses "casual" drugs (hashish and marijuana), to develop in Hungary. The indulgent Dutch practice also attracts Hungarian children: Drug tourism has begun. Their prices are also much lower than in Hungary: One gram of hashish is sold in Amsterdam for 3.5-4 German marks.

Experience indicates that the police will not go very far by beginning investigations on the user's side. The only purpose that raids serve is to make the arrested people "sing." Quite a few of them will become secret informers. Since in Hungary the institution of plea

bargaining (in exchange for helping to uncover a major crime, one is not charged for minor infractions) is against the law for the time being—cooperation is based on money. Remuneration may range between 5,000 to as high as 100,000 forints. In the case of a foreigner, a visa extension or assistance by the authorities in starting a business may be worth even more than money. The golden rule—a somewhat morbid one at that, remarks the chief dope cop—is that an informer must be protected for as long as he lives. Incidentally, none of their agents have been slain during his service. Sometimes an investigator does undercover work among users and dealers. (The head of the Budapest Drug Emergency must have had bad some experiences in this area, for he asked me during his interview whom I was working for.) However, in the absence of legal statutes, the Hungarian dope cop cannot, for the time being, be engaged for months or years in undercover work in crime organizations.

Since heroin smuggling is done mainly by truckers, the question arises whether the police solicit the services of Hungarian long-distance truckers. Lt. Col. Hollosy's reply: not too often. Incidentally, no Hungarian trucker has yet been arrested for drugs. Gyorgy Hollosy says that there is really no efficient way to fight drug-related truck crime.

Lt. Col. Dr. Imre Varga, head of the investigation department of the Budapest Police Headquarters, does not recall any major drug case during the past 10 years that had to be aborted for lack of evidence.

Most smugglers who are caught have been, and are, sentenced by Dr. Rita Kiszely's court at the municipal level. The "special" position of the judge in districts 18 and 19 is due to the fact that the Ferihegy airport is under her jurisdiction. The Hungarian airport is now frequently used as a transit station by Latin American trade networks, first of all by the Colombian cocaine cartel, but Nigerian suppliers have already also been caught. (Many people in Lagos make a living by distributing South American cocaine in West Europe.) Bolivians, Colombians, or Chileans bring cocaine in swallowed capsules. They swallow even a hundred at a time. They are simple unemployed farmers, and do not take the substance themselves. The middlemen loan them money and later, when they cannot repay it, they are asked to do a small favor. The judge thinks that they are bait fish who are used by the mafia to find gaps in the controls.

The Penal Code classifies an act as a misdemeanor or a crime on the basis of volume, not of value. The penalty for large volume (and dealing) is two to eight years in prison. According to Supreme Court ruling No. 6, a volume that is enough to endanger the lives of 10 or more persons is considered a large volume. This may be a minimum amount. Expert opinion has the last word on this, determining at the same time the one-time and the

daily dose of the various substances. (This, in the case of heroin, for instance, is 3-5 or 10-15 milligrams.)

The court attempts to handle such cases rapidly. The accused has the right to read the indictment in his own language, but translations take four to five months. For this reason—with the consent of the accused—the indictment is translated to him verbally by an interpreter. In most cases handled by the judge, the penalty is less than four years (prison terms of three years and eight months or three years and 10 months, and so forth).

Almost all apprehended smugglers confess (there is not much sense in denial when the substance is found on them), but that does not help in identifying their employers.

A shoe salesman from Bogota, caught last summer, was the first one who was willing to reveal that a man named Manolo was the one who asked him to do a small "favor." True, he talked only after the judge assured him that no electric current would be used on him during interrogation.

[Box, p 15]

Drug Confiscations in Hungary

In 1992, a total of 160.8 kilos (22.7 kilos in 1991) were confiscated by Hungarian authorities in 43 cases (16 in 1991). In addition, 163 LSD stamps were also confiscated.

In these cases, 75 persons (19 in 1991) were prosecuted. Forty-seven of the 75 perpetrators were Hungarian citizens (only seven in 1991). The division of foreigners according to national citizenship: six from Turkey, five from Switzerland, three from Germany, two from Slovakia, two from Yugoslavia, two from the United States, and one each from British Hong Kong, Nigeria, Laos, France, Ukraine, Kenya, Bolivia, and Chile.

In addition, Hungarian police uncovered four hemp fields and destroyed 96 kilos of hemp plants.

Seventy-seven of the 160.8 kilos of confiscated substances was heroin (in four cases).

[Box, p 15]

Hungarians Abroad

Eight Hungarian drug smugglers were arrested abroad in 1991. They possessed a total of about 30 kilos of heroin. All of them were caught on the Balkan route, four of them at Kalotina-Gradina, the Yugoslavian-Bulgarian border.

There were already 21 smugglers caught last year—again, most of them in countries along the Balkan route.

We have also set a unique record. There is no precedent in the professional literature of anyone ever trying to smuggle 83.5 kilos of heroin in a passenger car. Well, two of our countrymen, Erno K. and Mrs. Szofio B.L. (a

Hungarian citizen after her husband) tempted danger with their Audi 80. The Italian police caught them on the expressway between Trieste and Venice, at the height of Montfalcone. Another Hungarian gentleman, who even had a stolen passport, was engaged as a dealer on the island of Tenerife (!). Two young men were caught in Sweden as they were peddling marijuana. The biggest catch in the southern section of the Balkan route was that of a man from Dabas, who had 26.5 kilos of heroin on him. Incidentally, 12 of last year's 21 persons carried heroin.

[Box, p 15]

Hungarian Prices

Hashish: 700 to 1,200 forints per gram.
One matchboxful of grass: 500 forints.
LSD stamp: 800 to 1,400 forints per sheet.
Heroin: 8,000 to 10,000 forints per gram.
Cocaine: 10,000 to 13,000 forints per gram.
Amphetamin: 5,000 forints per gram.

* New Industrial Policy Concept Discussed

* Official Interviewed

93CH0411A Budapest FIGYELO in Hungarian
11 Feb 93 p 19

[Interview with Balazs Botos, Ministry of Industry and Commerce deputy state secretary, by "LER"; place and date not given: "Industrial Policy; Openness and Flexibility"]

[Text] *The listing of industry branches does not mean subsidizing them, according to Deputy State Secretary Balazs Botos.*

[LER] At first, a dozen enterprises were placed on the list of large enterprises that attracted special attention on part of the government (FIGYELO No. 31, 1992). Their number soon increased by one, and now the Csepel Works was placed on the list in response to an interpellation at the National Assembly. The government's agreement to include this enterprise in the list would set precedent, encouraging other enterprises to seek help. Don't you think this is true?

[Botos] We do not intend to expand the list. To the contrary: From a practical standpoint the number of enterprises was reduced to 11, because meanwhile, in addition to Taurus—whose financial troubles linked to a bank loan cannot be resolved this way—the liquidation of the Glass Industry Works has also begun, and no state interference is possible until the conclusion of the proceedings. Soon after reaching a decision concerning Dunaferri and Ganz Holding, decisions will also be made concerning Borsodchem as well as Raba; the economic cabinet of the government has already discussed their programs. The evolutionary programs of the Roller Bearing Factory, Vilati, and Nitrokemia will, hopefully, be before the government by the time you publish this

article, to be followed soon by the Ikarus program, which has been changed several times. Thus, although somewhat slower than originally expected, the government, or parliament where necessary, will make decisions concerning all the enterprises on the list by the end of March. We will review the situation of Csepel Works, but this much is clear already: More has to be done with Csepel than resolving the liquidity problems of that enterprise.

[LER] You gave us the information published in FIGYELO No. 4, 1993, according to which the entire program will cost 30 billion forints...

[Botos] ... which also included forgiving indebtedness to the state that could probably not be collected ever, state credit guarantees, as well as moneys returned to the firms from privatization revenues for converting their structures. We hope that the 11 billion forints earmarked to cover guarantees will not have to be expended, but the funds must be there, of course. At the same time, one has to understand that liquidating most of these enterprises would cost a similar amount, not to mention the costs caused by ripple effects.

[LER] For how long is the ministry going to pay special attention to their activities, once these enterprises receive their money? Will you or anyone else have a say in the enterprise managers' decisions based on your authority to reschedule or to forgive debts?

[Botos] It was you who wrote in an earlier issue of FIGYELO that it would turn out later whether these enterprises were viable without their indebtedness. The special attention we pay extends to many other enterprises, in addition to those on the list. It is also our duty to follow the situation of enterprises as long as they have installment payment obligations based on a rescheduled loan, but this does not represent some kind of state paternalism; in other words, we do not, we cannot interfere with management decisions. The purpose of the assistance is to render the enterprises operational.

[LER] Are you not entering into some special management contract? After all, the ministry recommended the assistance based on some enterprise policy!

[Botos] No, because this would still amount to veiled interference with the supervision of an enterprise.

[LER] Direct state assistance was only one of several means enumerated in the crisis management program. In addition, the program also mentions regional crisis management, the modernization of the structure, and you mention privatization as a transitional means. The medium-term industrial policy of the government enumerates very many kinds of involvement for the transitional period; at the same time, however, it does not rank these possible means. Why not?

[Botos] It would be difficult to place greater emphasis on any one of these means. Just by looking at the example provided by these 13 enterprises you can tell that a

different problem must be resolved in a different way in each of these enterprises. The industrial policy concept must reflect openness and flexibility, and a ranking of the means to be used would tie the hands of everyone concerned, rather than help them.

[LER] The government adopted the medium-range industrial policy at first reading, so to speak. Which chapters require more work, and on what grounds?

[Botos] Subsequent negotiations and supplemental information were needed for two chapters, but this, too, has been accomplished since. These had to do with the relationship between industrial policy and technology policy on the one hand, and external economic policy on the other. Regarding the relationship with technology policy we yielded on the position taken in our earlier proposal in which we expressed a need for an independent technology policy cabinet alongside the government. We agreed to expand the jurisdiction of the already functioning science policy committee in this direction. We also changed the R&D proportion of the GDP to be expended in the framework of industrial policy. Instead of the earlier 2 percent, we agreed to expend an annually increasing proportion of the GDP for technical development purposes. In the chapter on the external economy we made clear that external economic priorities must be streamlined with appropriate industrial policy goals. In parallel, however, international obligations must be taken into consideration in developing the means to be recommended in the framework of industrial policy. Thus, for example, we accepted a proposal to the effect that the efficiency of measures protective of industry must not be increased primarily as a result of establishing trade barriers in the form of customs duties. And, finally, we refined a few statements that suggested a conflict between the ministry's role, jurisdiction, and the available means.

[LER] Don't you feel that this industrial policy, too, is based on individual branches of industry, and that one frequently finds categories mentioned based on branches, sub-branches, and trades?

[Botos] The main body of the policy has departed from the industrial branch concept in my view, but the appendix on branches is based on the industry branches, of course. Having such a breakdown is important because investors invariably want to find out which branch is dominant in the Hungarian economy, and which branch has good development prospects. The appearance of partiality is probably caused by the fact that we wanted to remove ourselves from the customary, traditional statistical breakdown. That breakdown can hardly be used today, and particularly not in the framework of international comparisons.

[LER] Could the appendix dealing with the branches be regarded as the industrial policy concept for each individual branch?

[Botos] By no means, because the developmental and privatization concepts of the individual branches continue on the basis of the earlier practice.

[LER] Data provided at the branch or trade level frequently conflict with data published by other sources...

[Botos] Unfortunately, this is conceivable, because lacking official statistical data we requested and received information from various sources, such as from trade organizations.

[LER] Many people used several approaches in arguing with the choice of branches that would decline in the future, and with the method itself. Despite such arguments, the original recommendations remained part of the program. What criteria did the ministry use to include or not to include certain branches among the success branches? In today's world, is it not too bold to prognosticate for the year 2010?

[Botos] We changed the table as a result of the debate. (See our table and the list published in FIGYELO No. 49, 1992—the editor.) I am unable to agree with the objections to the method, because this listing does not convey any sense of ranking or state subsidy allocations. All we are dealing with here is the way our analysts see the present situation of the individual branches and sub-branches, and how they envision the future based on assessments of their future markets.

* Situation Analysis

93CH0411B Budapest FIGYELO in Hungarian
11 Feb 93 p 20

[Article by "LER": "...It Will Not Deteriorate Further"]

[Text] What can be expected to happen in industry in 1993? This was the title of a presentation given last week by Balazs Botos at a function sponsored by the Machine Industry Scientific Society. At this same function Industry Minister Ivan Szabo reiterated in essence what he had said a few days earlier at the Chamber on Innovation. (In this regard, see our report on Page 42) [Last part of this related article.] Both agreed that the situation of industry would improve somewhat this year, and, at the minimum, it would not deteriorate further.

According to Botos, the industry of 1993 "will be leaner than the old industry, but the reducing diet is not going to affect vital organs." In his view an increased demand can be expected for investment goods, and although, for the time being, this increased demand is not going to have a spectacular impact on manufacturers of investment goods, its effects are going to be felt continuously. (In his afternoon presentation, Gabor Papanek, a professional member of the Economic Research Institute, Inc., questioned Balazs Botos' optimism. He expressed the view that even if demand for investment goods increased, such increase would affect primarily imports, and not the domestic producers.) At the same time, demand for consumer goods continues to stagnate, and

competitive imports continue to lure away a significant part of the tight solvent demand. The now evolving industry branches, and branches which produce goods of good quality—but which are vulnerable due to the market switch, and switch in technology as well as in product profile—could be brought into more favorable positions as a result of rational measures protecting industry and the market.

Even today, 50-70 percent of the industrial products is sold abroad, and this indicates that we managed to find new markets after the collapse of the former socialist countries' markets. Balazs Botos believes that despite various economic prognoses indicating that there is a recession, Hungarian industry need not be concerned in the next few years about a restricted demand in the developed Western countries, and particularly not in the West European EC countries. He justifies this belief by saying that Hungarian exports to these countries amount to only a few thousands of their total imports, and when it comes to that little, it is always possible to find market opportunities. The deputy state secretary stressed that it was possible to return to the markets of the independent republics, and the fact that "certain positive tendencies" have appeared relative to trading with East European countries, because the rate of decline in these relations has slowed down or come to a halt.

Balazs Botos believes that a small expansion in industrial production may be expected in 1993 (Ivan Szabo talked about a 0-3 percent expansion, stressing that both the zero and the 3 percent were part of the prognosis), and that this could establish the foundation for invigorating industry within three or four years. This year "we must bring to a halt" the drastic reduction in industrial investments; this, however, cannot be accomplished as a result of direct state procurement, considering the present condition of the budget, Botos continued. But the process could be speeded up as a result of accelerated amortization, reduced interests rates, and preferential loans, for example. "We must stop the erosion of research and development," the deputy state secretary said, and mentioned that the specific governmental measure in this regard was the expansion of the jurisdiction of the Science Policy Committee with the addition of technology policy tasks. (On the same topic, a few days earlier it was said at the Chamber on Innovation that although the idea of expanding the committee's scope of authority so as to change the committee into a technology cabinet has occurred, this was not the appropriate path to follow, because four or five additional members would have to be added to the already existing four or five members of the committee, and from a practical standpoint this would mean the addition of the entire cabinet to the committee.) The next issue to determine the future of industry is infrastructural development, according to Balazs Botos. The modernization of roads, planned metro constructions, and the 1996 Expo will, by all means, produce orders for Hungarian industry, and special attention must be paid to procurement by local governments to make sure that they renew

their mass transportation vehicles by purchasing products from the Hungarian industry.

Balazs Botos raised this rhetorical question: What could the Ministry of Industry and Commerce [IKM] do to improve the situation of industry? The crisis management program obviously serves this purpose (see our interview with the deputy state secretary [the first segment of this related article]). Further, the IKM, jointly with the OMFB [Hungarian National Development Committee], has developed a support system that provides assistance to the background industry of car manufacturing—and primarily relative to the manufacture of Suzuki cars—to support related investments and development projects. A Hungarian productivity center is soon to open with the involvement of the IKM, and with

the support of the Japanese Government. This was new information disclosed by Balazs Botos, but we were not able to learn much about the functions and operation of this center. Its significance is nevertheless beyond dispute, because the productivity rate of the Hungarian industry is barely half that of the average productivity rate in West Europe, while even West European productivity significantly lags behind the average productivity rate in the United States or in Japan. Regarding the management of employment-related conflicts, it is the function of the IKM to take part in the creation of workplaces, and in this regard Balazs Botos remarked that despite unemployment, several enterprises were struggling with a labor shortage. This contradiction may be resolved by continuously establishing conditions for labor force mobility.

Anticipated Success Branches of Industry

1995	2000	2005
Equipment supply for small food industry enterprises	Equipment supply for small agricultural and food industry enterprises	Manufacture of biotechnological equipment
Personal car manufacturing	Energy production, electrical machinery manufacturing	Agricultural machinery manufacturing
Manufacture of certain household machine industry products	Automobile manufacturing background industry	Nonconsumer electronics
Environmental protection industry branches	Manufacture of certain household machine industry products	Manufacture of machine industry spare parts and components
Pharmaceutical industry	Nonconsumer electronics	Vehicle industry
Synthetics processing	Manufacture of machine industry spare parts and components	Environmental protection industry branches
Printing industry	Environmental protection industry branches	Pharmaceutical industry
Construction industry	Pharmaceutical industry	Fine chemical industry
Construction materials industry	Fine chemicals industry	Confectionary industry
Textile clothing industry	Printing industry	Construction and construction materials industry
	Printing industry	
	Textile clothing industry	
	Construction and construction materials industry	

Industry Branches Expected to Decline

1995	2000	2005
Mining	Mining	According to our prognosis the decline of outdated structures would be complete by the millennium
Foundry industry	Casting industry	
Casting industry	Textile industry	
Textile industry		
Leather and shoe industry		
Wood processing		

*** Innovation Conference**

93CH0411C Budapest FIGYELO in Hungarian
11 Feb 93 p 42

[Article by "LER": "General Meeting of the Chamber on Innovation; State Functions in Industry"]

[Text] "The future image of industry and the government's medium-term industrial policy" was the title given to the industrial policy concept recently adopted by the government (FIGYELO Nos. 29-30, 1992 and No. 2, 1993), as announced by IKM [Ministry of Industry and Commerce] Minister Ivan Szabo at last week's general meeting of the Chamber on Innovation. Technology policy is an organic part of industrial policy, he said, then went on to describe the industrial policy itself. The policy vies the developing, stagnating and declining industries at three points in time: 1995, 2000, and 2005. The structural transformation of industry will be complete by the millennium, according to the minister, and therefore, after the millennium we will be dealing only with developing and stagnating branches of industry. By the year 2000, the number of persons employed by industry will decline to 700,000; at the same time, however, the industry's share of the GDP will no longer decline.

The minister predicts a 0-3 percent industrial production growth until 1995, and thereafter a 4-5 percent growth rate despite the fact that forecasts indicate a global recession. This could be beneficial from Hungary's standpoint, because a proposed investment subject to rejection in West Europe could be viable if implemented in Hungary.

Ivan Szabo went on to summarize the state's functions in the framework of industrial and technology policies. One cannot neglect the fact that the state is present in the economy also as an owner, and this, of course, requires the state to perform ownership functions in a few fields. In addition to that, the establishment of an innovative environment, providing motivation to banks to reduce interest rates as a result of which moneys tied up in banks would be transferred to the productive sphere, are actual state functions. Similarly, establishing a modern infrastructure, without which no substantial investments get a start, is also a state function, but the development of the infrastructure itself means work for industry, and primarily for the construction industry. Ivan Szabo only mentioned the issue of direct state support for innovation; this subject was discussed in more detail by OMFB [Hungarian National Development Committee] Chairman, Minister Erno Pungor.

Pungor viewed favorably development project proposals received by the OMFB, and the outcome of these proposals. While in 1991 only 20 percent of total of 2,800 proposals received were regarded by the professional review committee as acceptable, last year the committee supported 40 percent of the 700 proposals it had received. Seventy percent of the one-year project proposals were accepted. In the OMFB chairman's view,

small and medium size enterprises should receive support, or should be provided the needed know-how. Pungor complained that as of today Hungary was spending only 0.8 percent of the GDP on research and development, and that this amount was not divided in the desired proportions between basic research (about 10 billion forints annually) and technological development (about 7 billion forints).

At the Chamber meeting attended by representatives of more than a hundred research institutions, no substantive debate evolved about the present and the future of innovation; nevertheless, views expressed regarding many details differed. It was generally agreed that in today's Hungary there was no comprehensive science policy concept, and that separate work groups dealt with issues of science and education within every decision-making body, including in parliament. No change can be expected in this regard for now.

*** State Comptroller on Debt-Service Management**

93CH0378A Budapest FIGYELO in Hungarian
14 Jan 93 p 31

[Article by State Accounting Office Vice Chairman Laszlo Nyikos: "Debt Service—Can It Be Managed?"]

[Text] *The expected cumulative domestic state debt will be more than 2 trillion forints [Ft] at the end of 1992, says the ASZ [State Accounting Office] chairman.*

After the integration of Hungarian Radio and TV—which constituted separate sections earlier—into the section entitled "The Prime Minister's Office," the 1993 central budget consists of 26 sections. The second largest budget item is in a special section that carries the title "Domestic State Debt." Considering that the expenditures column of this section is four times (Ft203.6 billion) that of the approved expenditures of an average section and that 16 percent of the approved expenditures belong to this section, relatively little was said about it during the parliamentary debate on the 1993 budget. The pace of issuing bonds picked up during the early 1990's: In the wake of the parliamentary decisions concerning the years 1991-93, 458 billion forints' worth of bonds will, or may, be issued.

The planned debt servicing includes Ft180 billion in interests and dividends for next year. Actually, the core of the problem is the expected interest payments. Payable installments, which constitute another major item in debt servicing, can easily be quantified.

The 1993 budget bill's calculation material also shows clearly that beginning in 1995, the burden of installment payments will increase. The payable installments are: Ft24.4 billion in 1993, Ft36.5 billion in 1994 and 1995, Ft54.3 billion in 1996, Ft83.7 billion in 1997, and so forth. Of course, the interests for the succeeding years are still unknown, because they will be determined by decisions in economic policy, by inflation, by the actions of the central bank, and by other factors.

For a long time now, a professional debate has been going on between the State Accounting Office and the financial cabinets on whether it is necessary to handle the problem of state debt as a strategic issue. In monitoring the implementation of the 1990 national budget, the ASZ proposed, for the first time, to have a plan worked out for managing state debt and presented to parliament after the assessment of both domestic and foreign debts. At that time, the annual debt burden, payable by the turn of the millennia, was estimated at between Ft90 billion and Ft125 billion. However, the actual 1991 burden of state debt amounted to Ft107 billion and the amount approved for 1993 is twice as high. If the amount of payable interests does not decrease in the coming years, debt servicing may exceed 20 percent of the central budget expenditures as early as 1994.

The question of whether the huge debt in public finances can be financed with domestic savings is only one side of the coin. If we are optimistic, we can also expect a possible loss of trust on the part of depositors and subsequent withdrawals. Let us also ignore the dilemma of economic policy, namely, what effect the issuance of state bonds worth several hundred billion forints will have on business attitudes, interest policies, and investment financing. (Monitoring economic policy is outside the responsibility of ASZ.)

Calculations should be done regarding possible emergency measures that will have to be taken in the budget in the coming years. Preparing prognoses is probably a political rather than a professional matter. It is connected with the question of when the Hungarian economy will be able to produce enough revenues to make debt servicing a little more tolerable. What percentage will it take from future budgets that may be slimmed down? What pressure does state debt exert on the economy and public finances?

It is an encouraging sign that, in the wake of the ASZ proposal regarding the managing of state debt, parliament's recently formed accounting committee decided last month to put this issue on its agenda. The purpose of that would be, among other things, to lay the foundations for the 1994 central and social security budgets.

* Restructuring of Producer Cooperatives Viewed

93CH0378A Budapest MAGYAR NEMZET (Economic Supplement) in Hungarian 18 Jan 93 p III

[Interview with Agriculture Ministry State Secretary Laszlo Sarossy by Ivan L. Horvath; place and date not given: "Production Is Undisturbed During Restructuring"]

[Text] Last year, agricultural cooperatives had to carry out at least five major tasks. Becoming increasingly poor and often having completely depleted reserves, they had to continue production and had to face drought; they had to begin with compensations, assigning the areas to be transferred to the new owners; and they had to implement

the laws on agricultural restructuring, i.e., every cooperative had to complete the distribution of common assets by the end of December 1992 in the form of business shares, and had to decide on the form of business they wanted to adopt for the future. We talked with Agriculture Ministry Political State Secretary Laszlo Sarossy about the losses the compulsory restructuring of cooperatives has brought about and, more precisely, about the possible danger that the new business forms would be unable to meet the branch's annual production goal.

[Horvath] It is being said that farms were unable to completely carry out the statute's provisions, for not all cooperatives were restructured by 31 December. Does your portfolio have exact data?

[Sarossy] According to the latest survey, which is dated 22 December, 1,033 of the 1,410 cooperatives, i.e., 73.3 percent, have completed the restructuring, and 97 farms are being liquidated.

There Are Other Ways as Well

[Horvath] That is, one-fourth of the cooperatives have ignored the law...

[Sarossy] It would be unjust to pass the judgment that they have failed to live up to the requirements of the law. That is not the point. It was obvious already at the moment the statute was passed that restructuring is a such complex process that some of them, despite all efforts, would be unable to meet the deadline. In looking back on last year, we can definitely say in summary that the assessment and definition of property that preceded the restructuring took place in most cooperatives with less-than-expected problems and complaints. On the other hand, the distribution of property was more problematic. Although it could have been foreseen, it turned out at the general meetings, where the decisions were made, that three groups of varying interests exist within the cooperatives. What the active membership wants is different from what retired people want, and what those who do not live in town and do not work in the cooperative but have a business share want is different again. Wise decisions had to be made, which indeed happened in most cases. Actually, what had to be solved was—as illustrated by a simple example—that the cattle farm be maintained as a whole, that the wheels of tractors not be stolen, i.e., that the branches be maintained operational. There were some problems in some places with regard to the distribution of property because it was decided ahead of time that the farm and property must remain in one piece. The ministry continually received information that in several places the membership was being misinformed. We could also say that it was not stressed enough that forming cooperatives is not the only way to go, that the membership can leave in groups or individually, that private farms can be established, and that the cooperative can choose between turning into a limited company or a stock company. It happened in several places that involved members were not informed about decisions made at general meetings

or about the size of their business shares and, consequently, they could not decide in time whether they wanted to stay or leave. It also happened that a meeting for property distribution was called, almost like a coup, right after the general meeting in which the property was identified, i.e., not after the required 60 days, and a decision was even passed. Which was illegal.

[Horvath] Such things, I think, only happened sporadically. Or does the FM [Ministry of Agriculture] have different information?

[Sarossy] It would be a mistake to generalize. However, we should not ignore infractions either. But the FM is not an investigative authority and cannot undertake the investigation of individual cases. I think that the infractions mentioned resulted from the fact that the statute assigned too big a role to general meetings that represent the main democratic decision making body of cooperatives. Let us have no illusions: During the past 40 years, decisions were made at general meetings in accordance with the leaders' wishes, and this has not changed much. It is difficult to stop automatic responses even when the voting members are no longer only nominal but real owners.

Let the Office Investigate

[Horvath] No one has any reliable data on the number of farms that are violating regulations, so one can only surmise that such instances have occurred. On the other hand, during the night of its last session last year, parliament passed a statute that generally questions the competency of the cooperative body that decides on restructuring by giving authority to an organization of state administration and to agricultural offices to monitor the lawfulness of restructuring. Many, including MOSZ [National Association of Workers Councils] that represents the interests of cooperatives, considered this as a blatant interference with cooperative democracy.

[Sarossy] The offices you mentioned were given the authority to look into the documentation of restructuring and—in case they detected any irregularity—to alert the given registry court that has the authority to restore lawfulness in case of an infraction. I think that this law is useful and necessary because, on the one hand, imagined and real grievances can be separated, justified complaints can be remedied and, subsequently, not even the suspicion can arise that something is wrong with the restructuring of cooperatives. On the other hand, it is important because it makes everyone aware that even those who do not like it must adhere to the law. I believe that in most cases the offices will determine that the restructuring happened in full compliance with the law.

[Horvath] Obviously, investigations will slow down production, just as restructuring and compensation did last year. This is hardly desirable today when—as claimed by many, including unions and the opposition—the branch is going through a crisis...

[Sarossy] I think that last year's greatest achievement was that, while implementing the appropriate laws, cooperatives remained on their feet and are operating, thanks, first of all, to the agrarian intellectuals: I take my hat off to them.

[Horvath] Data in which the restructuring is analyzed reveal that most cooperatives chose the new form of cooperative, i.e., the dominance of major businesses continues in farming. Many people do not applaud that.

[Sarossy] One can declare that "our cooperative is of the new type," but if this declaration only means the repainting of signs, then this will sooner or later back-lash. It is difficult to say today what is really behind the new structure of a given business. If it is that they continue where they left off yesterday, i.e., they only want to farm without providing service, processing, or marketing, then they must prepare for the worst, namely, that they will rapidly find out that such a venture is not viable.

Results Will Be Better This Year

[Horvath] About 6-10 percent of the membership took its share of property out of cooperatives and left; in other words, the overwhelming majority went with joint effort.

[Sarossy] Many people write this figure on their fluttering flag of victory, but I do not believe that this should be regarded as an unequivocally felicitous success. For the essence of a cooperative is voluntariness, but no one can be convinced that those members who remained did so on their own free will. I am not trying to say that the reason why no more people left is that they were forced to stay; more probably, the reason why less people left the cooperative than expected is that they were afraid of the uncertainties. More-effective political support and—what could have meant even more—tangible government help would have probably been necessary for people to have more courage to leave the cooperatives and form private farms. Another concern of mine is that not as many cooperatives were split as would have been economically justified, i.e., that not more of the cooperatives that have been vegetating in the red with state subsidies almost from the time of their establishment have been, or are being, liquidated.

[Horvath] On the basis of all this, then, cooperatives begin this year—approximately, of course—as they were before restructuring; I am not thinking of their financial situation, because that has worsened, but of the size of their membership, of the form of cooperative, and of the leaders who are, by and large, the same people. The great restructuring, which had been predicted and promoted two or three years ago by many, seems not to have taken place.

[Sarossy] I disagree. I do not think it is a problem that the same group is heading the cooperatives as before; for most people became leaders in the 1970's and 1980's not because they were party cadres but because they proved to be professionals. Even the membership is not the

same, for the number of those who have left is far from negligible. Restructuring also changed the cooperatives' business structure, new self-accounting units, limited companies, and limited partnerships were created. At the same time, even the size of cooperative areas is shrinking, for they have lost significant land areas—my estimation is about 1 million hectares—through compensation. Of course, it cannot be precisely determined today how many people lease their new land to cooperatives and how much land is being leased. Therefore, I say not only that the cooperative structure is different from that of one or three years ago, but also that the change is not yet complete.

[Horvath] But will the cooperatives—which continue to be in motion, which carry all the burdens of restructuring, and which are trying to find their place—be able to at least reach the level of last year's production?

[Sarossy] I am expecting more than last year's level. For several reasons. Fall sowing was fine. The farmer's market, and the animal stock seem to be relatively stabilized. Perhaps even the drought will spare us this year. And—very important—the branch's financial position may greatly improve this year. It is a fact that 50 billion forints are allocated in the 1993 budget expressly for farming purposes, and this is 25 percent more than last year. We can add to this the value of compensation vouchers received for transferred arable land, which can amount to 30 billion. This sum can be considered money found, for land had no value before. Receipts from the privatization of state farms represent an injection of capital of similar size for agriculture, for they will remain on site instead of "being poured" into the state's great "hat."

*** Geremek on Major Points in Foreign Policy**

93EP01783A Warsaw PRZEGLAD TYGODNIOWY in Polish No 4, 31 Jan 93 p 14

[Interview with Bronislaw Geremek, chairman of Sejm Foreign Affairs Committee, by Marek Cichocki; place and date not given: "At a Road Fork: 1992 in Polish Foreign Policy"]

[Text] *This is another in a series of articles on Polish foreign policy. In No. 51/52, 1992, of this weekly Jerzy Giedroyc and Jan Nowak-Jezioranski presented their opinions. Today we publish an interview with Prof. Bronislaw Geremek. Next week: An interview with Janusz Korwin-Mikke and Jozef Oleksy.*

[Cichocki] In the west Poland borders on Germany, an economically very expansive country that is, however, at present experiencing a major internal crisis, and in the east it borders on the countries that arose following the disintegration of the USSR and are only now forming their statehood. Is this a favorable situation for Poland?

[Geremek] This is Poland's age-old dilemma. I believe that nowadays prospects for resolving this dilemma can be spoken of. Well, it seems possible to adopt the assumption that Poland no longer faces a direct foreign threat and instead participates, as a subject of European policy, in counteracting the perils menacing the entire Europe. This may be an ambitious hypothesis but, in my opinion, it is confirmed by certain arguments. Poland has signed with Germany a treaty which is a good point of departure for establishing proper relations with our western neighbor. German unification is proving to be a more difficult process than some German leaders had anticipated. But we can assume that Germany shall continue to pursue full integration with European structures and, by the same token, the old dilemma of whether Germany will become European or Europe German, which so disturbed Thomas Mann when he had written about it in 1945, will become resolved in favor of visions of a European Germany. To Poland this would mean the end of age-old dangers and antagonisms.

In the East we have established initial relations with Ukraine, Belarus, and Russia. Appropriate treaties were signed. I deliberately mentioned these three countries as Poland's eastern neighbors, because essentially Russia should be viewed as our neighbor, and not just because of the Kaliningrad Enclave. Russia's shadow is permanently present in our relations with Ukraine and Belarus. For the time being, a rebirth of Russian imperialism is no threat to us, but we may fear instability in vast areas of the former Soviet Union. All the consequences of such instability would affect all of Europe, but above all Poland. I believe therefore that the fact that both these traditional perils ensuing from Polish political geography are now being considered in a pan-European context is favorable to the cause of Poland. This country is as it were gaining a European backing with respect to both these dangers.

[Cichocki] Are Polish political elites still tempted to insist on a rigidly conceived autonomy of Polish foreign policy while at the same time supporting the concept that our country has to play some dominant role, if not in Europe then at least in Central-East Europe?

[Geremek] I would not be apprehensive of any such temptation. If Polish foreign policy has become autonomous, that accounts for its new importance. On the other hand, the occasional demagogic criticisms of the process of European integration as endangering Poland's newly regained sovereignty can be considered somewhat disturbing. I do not share such apprehensions; on the contrary, I am of the opinion that, like all the democratic and independent countries of Europe, Poland is interested in relinquishing certain elements of its sovereignty on gaining in return permanent guarantees of its independence and economic growth. From the standpoint of Poland's national interests the consolidation of the democratic model of governance in the neighboring countries should matter to us. Here I am thinking of both Germany and Russia. Poland clearly is not a big power, but it can play an important role to its own and the entire Europe's advantage. A country's strength is measured not only by the size of its population but, above all, by its economy. Poland is only at the threshold of economic recovery. On the other hand, Poland's role in the Visegrad Group and in the cooperation of Baltic countries, as well as its activities relating to the Central-European Initiative—insofar as that initiative survives the Yugoslav crisis—can and should be proactive. A priority goal for Poland in recent years has been and is joining the European Community. That also is the goal of the other countries of the Visegrad Group.

[Cichocki] A fundamental accusation often raised against Polish foreign policy is that it is not based on any long-range concept as regards such basic issues as the opportunities and perils of integration with the European Community and in the longer run the ethnic problems in Silesia or the future of the Kaliningrad Enclave.

[Geremek] I would not want to be an apologist for the foreign policy of Polish Governments since 1989. Nevertheless, it seems to me that this policy has rested on well-defined strategic objectives. First, rebuilding the sovereignty of our state and its foreign policy. Second, a rapprochement between Poland and the West and participation in European integration. Third, establishing good relations with eastern neighbors, initially with the Soviet Union. I believe that in these domains much has been accomplished. But it does not seem to me that much importance should be attached to factors over which less control has been exercised, such as the problem of the German minority in Silesia or of the Kaliningrad Enclave. From the standpoint of foreign policy the problem of that German minority has been properly resolved. Whatever remains of it depends on the internal policy of the government. The Kaliningrad issue continues to be of concern. The troop concentrations in the Kaliningrad region and Germany's interest

in the fate of that territory may be viewed by Poland as a possible source of danger. But I do not think that these examples should be considered extremely serious dangers.

We should be aware that we exist in a new situation, at a fork in the road, when a vision of the future is needed. Now is the moment when a new strategy of Polish international policy has to be worked out so as to assure a continuation of all its accomplishments so far and at the same time to offer prospects for further growth. Above all, this concerns Europe. The association agreement with the EC applies to the European Community such as had existed prior to the Maastricht treaty. Hence, our vision of rapprochement with Europe concerns chiefly the economy and a common market. But as for the Maastricht treaty, it creates a totally new situation because it provides for a common foreign and military policy and a currency union. For the time being, however, this is still rather a distant prospect.

[Cichocki] But has there not been a major turnabout in Polish foreign policy? The impression may arise that we have become so absorbed in courting admission to EC and NATO structures as to deliberately turn a blind eye to the looming problems in the East.

[Geremek] For the time being our efforts to gain admission to NATO have been fruitless. The date of such admission cannot be foretold. However, even now we have been able in obtaining a kind of security guarantee. When we signed the treaty with Germany, Minister Genscher said that now Poland borders the European Community. I believe that in a sense that border has shifted eastward to the Bug River. Thus any conflict that might arise on Poland's eastern border would of necessity be of an international character and also concern the North Atlantic Treaty Organization. For this reason I do not believe that attempts to gain admission to the EC and NATO mean escapism from relevant problems in the East.

[Cichocki] But is not the example of former Yugoslavia raising fundamental doubts?

[Geremek] That is a disturbing example. It demonstrates that Europe has become impotent and only the United States can continue to exercise a political and military role in the world. It is precisely the indecision on the part of the United States that has prompted the West to tolerate the escalation of perils in Yugoslavia. In the case of the Balkans we are dealing with a special situation that should not, however, be considered exotic. The Yugoslav lesson has demonstrated to us that Europe must create a process for taking political decisions and the means, including the military, of implementing them.

[Cichocki] The treaties concluded by Poland with its eastern neighbors other than Lithuania are undoubtedly a fundamental turnabout in our eastern policy. But I am perplexed by the unwillingness of Polish politicians to comment on a concept of Polish eastern policy.

[Geremek] As I see it, not just the politicians but also the intellectual community have not been giving serious thought to Polish foreign policy. I believe that once that policy becomes more widely debated and pondered, Poland could begin to play a much more active role in international politics. At the same time Polish *raison d'état* and our national interests should not be the subject of that demagogic haggling which characterizes political campaigns. The broadest possible consensus on foreign policy should be created. It seems that this has largely been accomplished.

As regards the weaknesses of our foreign policy, judging from its results, Lithuania deserves special mention. In 1989 it had seemed that Poland would establish good relations most readily with Lithuania. It was believed that Lithuania's independence would be a sufficient condition for establishing these relations and, considering past history, the future of Polish-Ukrainian relations would be a much more touchy issue. Yet, we still have not a treaty with Lithuania. I believe that, because of this, both sides are the losers. The recent electoral victory of Brazauskas may afford an opportunity for improved Polish-Lithuanian relations insofar, of course, as he will pursue a policy of asserting Lithuanian independence and continuing its economic and democratic transformations.

[Cichocki] As the chairman of the Sejm Foreign Affairs Committee, do you believe that the public can or should influence this country's foreign policy through its representatives in the parliament?

[Geremek] I think that the foreign policy of present-day democracies is a domain of the executive branch of the government. At the same time, a process that I would term the influencing of foreign policy by public opinion is in the interest of that branch. That is because unless foreign policy is a subject of social and political debate, it exists in public awareness in the form of frustrations and apprehensions; it manifests itself in the fears, in the questions of whether we should fear Germans or Russians, or should we fear the Gypsies or an inundation by Russian refugees. But the point is precisely to obviate fear and explore solely through rational analysis the opportunities and possibilities for resolving the problems that worry us. Both in foreign and in domestic policy we always face choosing among certain civilizational models. If we chose the model of an open country pursuing an open foreign policy, it is not enough for us to be right—we need also to convince the Polish public that we are right. Otherwise there will arise defense reactions of the claustrophobic kind, reflecting fear of outside perils, of smuggling, of gangsterism, of an influx of foreigners, of trade in radioactive materials. Thus, if politicians fail to make foreign policy a domain of public interest, they condemn it to failure. It would not be good should frustration be the principal response. In such a situation it is not the Polish society but its political elites that should be blamed. This leads me to conclude that foreign policy should not be taboo to the public on the grounds of national interest, and neither should it be a

domain of the elites in view of the technical complications in understanding the arcana of modern international politics; instead, it should be a subject of ongoing public debate.

*** Electorate, Political Goals of SLD Discussed**

93EP0178B Krakow TYGODNIK POWSZECHNY in Polish No 6, 7 Feb 93 p 6

[Interview with Aleksander Kwasniewski, leader of Parliamentary Club Alliance of Democratic Left, by Andrzej Romanowski and Adam Szostkiewicz; place and date not given: "I Really Like Democracy"]

[Text] [TYGODNIK POWSZECHNY] You are now the leader of the largest caucus of deputies in the parliament. Did you ever imagine that three years ago when the Solidarity revolution began?

[Kwasniewski] Had someone foretold that to me then, I would have thought him crazy. Those were difficult times, those 13 months between mid-1989 and mid-1990—the failure of our ideas, the collision with unadorned social reality.

[TYGODNIK POWSZECHNY] How then to account for your electoral success in 1991? Did the "war at the top" help you?

[Kwasniewski] In a sense, yes. But mostly that was due to our being consistent ideologically. We avoided two dangers: We became neither the party of communist nostalgia nor a party of aggressive bully-boys reacting to any and every slight.

[TYGODNIK POWSZECHNY] Still, you represent rather specific interests.

[Kwasniewski] Why? Because they are the interests of the working people. This is reflected in our Sejm voting record on budget-unit salaries, social security, the tax on wage increases, and pensions and annuities. We always face the attendant basic dilemma of any major political party: Which issue should be given priority under the particular Polish circumstances? Economic recovery or the protection of worker interests? They are polar opposites and cannot be reconciled by means of a facile compromise. Well, we here in our parliamentary caucus are not all of the same opinion on this matter; some of our members are trade unionists, and to them protecting the interests of workers is paramount, so that they argue about this subject with the other members. Generally, however, even if some of us believe in giving priority to the economy, we support the pursuit of an effective social policy.

[TYGODNIK POWSZECHNY] But this does not appear quite right. The SdRP [Social Democracy of the Republic of Poland] is chiefly supported by the old-time apparatchiks, the men of, so to speak, ancien regime. We perceive no such support among plant workforces, the

intelligentsia, or in the countryside. Even the old *nomenklatura*, which has switched to the private sector, would nowadays prefer to vote for the Democratic Union or the Liberals.

[Kwasniewski] No, not so. Our electorate resembles that of the Democratic Union in including budget-unit intelligentsia and the better-educated worker groups, more town than country (although in the countryside, too, we are perhaps the most popular among the nonpeasant parties). Similarly our electorate includes more mature people than youth (the latter are rather attracted to the KPN [Confederation for an Independent Poland] or the Liberals). Our voters are people who feel dissatisfied with the present situation and apprehensive about their security. Ours is a stable and geographically fairly uniform electorate, although this does not mean that we have no bastions of our own, as for example in Wloclawek where our candidates won both Senate seats. But speaking more generally, the political situation in Poland is evolving through three stages. The first stage is historic, although its echoes reverberate to this day, with its characteristic division into "us" and "them." During the second stage, at present, the political parties define their programs, for example, their position on church-state separation, state interventionism, privatization, etc. For the present these divisions occur fairly often within discrete political parties. We are facing the third stage: It will be a result of economic processes in the course of which the interests of big capital will differ from those of small business and those of hired workers, peasants, or the unemployed. During that stage several major blocs should arise: Two blocs, the Christian democrats and the social democrats, will express worker interests, while a third bloc, that of the Liberals, will protect the interests of big and little capital. A fourth bloc will be a peasant party built around the present-day PSL [Polish Peasant Party]. Lastly, there will be a fifth bloc consisting of nationalist parties; since Le Pen is possible in democratic France, a similar movement, led by Olszewski, Parys, or Moczulski, is certain to arise in this country.

[TYGODNIK POWSZECHNY] You did not mention an anticlerical party, but it is said that the referendum committees, in which your party is so active, may be the embryo for such a party.

[Kwasniewski] The rise of any such party in Poland would be a symptom of malaise, which does not necessarily mean condemning such a party itself, as it would reflect malaise within the Roman Catholic Church itself in Poland owing to its being too active or acting improperly. The dispute underway between Christian-democratic and social-democratic and liberal parties concerns what kind of state we should have, one separate from the church or one based on "Christian values." On the other hand, anticlericalism in itself as a program of action would be something sick, just like clericalism, nationalism, etc., besides. All these "isms" are extremist behavior which I hope will not arise, even though in theory they also are possible.

[TYGODNIK POWSZECHNY] We still have the impression that a discrepancy exists between your words and actions. For example, while it is true that the SdRP is open to the post-Solidarity left, there has been no response from it. On the other hand, your offer to unify the Polish left has been eagerly accepted by the OPZZ [the postcommunist National Trade Union Alliance] which, as you yourself will admit, is nudging you in the direction of populism, and even by the "Proletariat" Union of Communists (whose members figured on your electoral slates). Moreover, since your party has not been decisive enough about its attitude toward the communist past, a couple of months ago there was the affair of Tomasz Nalecz and his faction who abandoned the SdRP in favor of Labor Union. Thus do not you think that in practice your openness has been onesided?

[Kwasniewski] Our openness is honest, and it can be proved. First of all, we supported a non-SdRP candidate in the presidential elections. Secondly, we created the Alliance of the Democratic Left.

[TYGODNIK POWSZECHNY] That is just what we mean: That was an opening in the direction of populism.

[Kwasniewski] This offer to invite joining the Alliance of the Democratic Left was accepted not only by trade unionists but by eminent intellectuals and scholars. True, people like [unionist Solidarity leaders] Bugaj and Bujak did not respond to it, but that already is their problem, not ours. Afterward there was that thing whose scale no one had foreseen: our electoral success. The activists of the present-day Labor Union had thought that after the elections our both parties would be able to meet as more or less equals. The reality turned out to be different—and I am drawing no conclusions from it. Because the best proof that cooperation based on similar programs of action is possible is precisely our mass participation in the referendum committees formed by Zbyszek Bujak: In many cities they were formed almost solely on our own. As for Nalecz and his faction, our cooperation with him was very good, but I will not deny anyone's right to his own identity.

[TYGODNIK POWSZECHNY] But the matter has to be cleared up and a position on it taken. Was not that what Nalecz demanded?

[Kwasniewski] The past has to be discussed, but to the least extent among politicians. Besides, really, so far as the past is concerned, not much remains that still has to be cleared up. Do I have to explain that the merger of the Polish Workers Party and the Polish Socialist Party in 1946 was undemocratic? Of course it was.

[TYGODNIK POWSZECHNY] But where are your ideological roots located? Outside the PZPR [Polish United Workers Party]...

[Kwasniewski] In the proreform orientation, in the PPS (Polish Socialist Party).

[TYGODNIK POWSZECHNY] How can apples be confused with oranges? Could the PPS General Secretary Kazimierz Puzak, who was tortured to death in a PRL [Polish People's Republic] prison, be your precursor equally with the party reformers deriving from the Stalinist PPR (Polish Workers Party)?

[Kwasniewski] We do not repudiate anyone but neither do we adhere to anyone. I repeat: Such discussions should not be the concern of politicians. Sometimes Western journalists ask me whom does our party champion? Marx, Engels, Lenin, or Gramsci? But we champion everyone. I am opposed to the domination of politics by ideology, because that is a barren exercise. Though on the other hand I am opposed to a new ideology based on absolute pragmatism.

[TYGODNIK POWSZECHNY] "I am both pro and contra..."

[Kwasniewski] Not in the least. To be really honest, one cannot repudiate neither Puzak nor Cyrankiewicz nor Gomulka, Kania, Rakowski, Gierek, or Jaruzelski. Nor even Bierut. That would be too easy nowadays.

[TYGODNIK POWSZECHNY] Is it so difficult to separate an ideological movement from the secret police, socialism from totalitarianism?

[Kwasniewski] We are for Poland's independence and against totalitarianism. That has been clear ever since the establishment of the SdRP. But, as the saying goes, we know ourselves only to the extent to which we have been tested by experience. Once some people in Poland desire to return to totalitarianism, what will count is the position and actions taken by individuals rather than whether they have or have not been criticizing Bierut.

[TYGODNIK POWSZECHNY] But you do not want to criticize, because you count on the support of an electorate linked to the former regime.

[Kwasniewski] But we have voiced criticism hundreds of times already! Anyhow, what should we do?! Yes, I used to be a minister in the Messner and Rakowski administrations. Does this mean that I praise that period uncritically? Our party is concerned with a rational attitude toward the past. There is no return to the Polish People's Republic, the one-party system, and a command economy. The only road to a proper economy is through the mediation of market mechanisms. But because of all this am I supposed to forget about the accomplishments scored by the Polish People's Republic? About the provision of universal access to education and culture? About the existence of a social policy?

[TYGODNIK POWSZECHNY] Still, you cannot escape the past, as otherwise you will always be on the defensive. You will have to somehow explain all this.

[Kwasniewski] You said "somehow." Please tell me how? Historians have already explained enough so that nobody says that Poland after 1945 had been a sovereign country. But the external circumstances have to be

perceived: Poland had been part of a block which was formed not solely owing to a decision by Stalin but also that of all the allies. The Yalta agreements no longer apply and the system based on them has collapsed, so that as a logical consequence the structures of that system, including the PZPR, have vanished and the present-day Polish Left is completely different.

[TYGODNIK POWSZECHNY] The decision of the big powers [at Yalta] assumed, however, the conduct of free elections in Poland. Nowadays we know from documentary proofs that the 1947 elections had been falsified. Do not you think that now is the time to declare, "We shall never again allow this original sin to be ever associated with the Left"?

[Kwasniewski] Yes! We shall never again tolerate it. But we shall never again either tolerate intervention by a foreign power, the ideologization of public life, and the politicization of the economy and government. We have already experienced all this on our own skin and developed immunity to it. At the same time, I notice that nowadays many students of that [communist] system can be found precisely on the opposing side of the political scene—the same ideas but under different banners.

[TYGODNIK POWSZECHNY] That is arguable. It is precisely in this context that we are disturbed by a statement in your program, namely, "Poland is menaced by the domination of an aggressive and intolerant Right; we want and can oppose this policy." What does it mean, "we can"? By what means?

[Kwasniewski] I understand your anxiety "in the back of the head," but it should be read in the context. Our methods can be only democratic and parliamentary ones. Why are you suspecting me of disliking democracy? I really have reason to like it.

[TYGODNIK POWSZECHNY] What do you think of Jaroslaw Kaczynski's desire for early presidential elections?

[Kwasniewski] The very fact that it is Kaczynski's idea makes me feel concerned. But let us bear in mind that in a democratic country early elections are not something abnormal; sometimes life runs ahead of the expectations of lawgivers. Nowadays three factors should be taken into consideration: Parliamentary elections, presidential elections, and elections to local governments (soon now administrative division of the country into powiats [counties] will take place). Then too there is the problem of the Constitution. Will the Sejm be capable of adopting a new constitution? If so, it will have to work a year or a year and half on it, then pass the constitution and, subsequently, declare new elections. But should it turn out that the Constitutional Committee led by Senator Piotrowski is incapable of drafting a new constitution, because the political divisions are too deep, then conclusions have to be drawn from it. We may develop specific options and perhaps present them to the public in the form of a referendum. Who knows whether such a

referendum might not be linked to parliamentary elections, or even to elections to local governments. These processes would be crowned by presidential elections. Yes, precisely, I could support such a timetable of changes. But it would have to be based on an analysis of the situation and not on some arbitrary decision.

[TYGODNIK POWSZECHNY] So then, early elections, for example, in the spring or even fall of 1994. On the occasion you would be counting on a bigger electoral win for your party.

[Kwasniewski] Every political party expects to succeed. And every such party also promises that it would govern well.

[TYGODNIK POWSZECHNY] But you do not promise any such governing because you do not desire power. Instead, you are battenning on the failures of the Solidarity camp in the last three years.

[Kwasniewski] Not true. I would be the last person to fail to appreciate the fact that the opposition does not have to meet clandestinely in cellars, that it does not have to mimeograph its publications, that the shortage economy has ended, and that there is no black market in dollars. But please bear in mind that we are in the opposition while others are in the business of praising the government. But we also are, as Prime Minister Suchocka declared recently, a responsible opposition, meaning one ready to look at things from the standpoint of national interest as a whole. We voted in favor of the Little Constitution [conferring somewhat greater executive powers on President Walesa] and to this day some among our rank and file criticize us for doing that. The answer is simple: We want this state to be an orderly one. On fundamental issues, such as, e.g., the association with the European Community, one cannot be guided solely by partisan interests. One has to know where to overlook the division between the government and the opposition.

[TYGODNIK POWSZECHNY] Let us assume that you become the party in power. What then? The problem of forming a government may arise. You do not want power, but how about joining a coalition government? And if so, coalition with what party or parties?

[Kwasniewski] Nowadays we are doubtless closest to the PSL and Labor Union. The programs of these two parties are similar to us as regards answering the question of how to use market instruments in order to accomplish socially useful purposes. We find many valid statements in the social teachings of the Catholic Church on working people and their primacy. We accuse the Liberals of treating market instruments as an end in itself. But as regards the concept of the state, our views are closest to those of the Democratic Union and the Liberals. We have a similar vision of a state ruled by law, of church-state separation with the domains of action of the state and the church being separate and autonomous. In this sense our views are diametrically opposite to those of the Christian-National Union. As for the Confederation for an Independent Poland, I simply do not

consider it as a coalition partner, because that is a party dominated by a social-engineering policy designed for a primitive vying for influence.

[TYGODNIK POWSZECHNY] The social and economic program of the SdRP produces the impression of a melange of electoral slogans and pious wishes. Your slogan of "the third way" [between conservatives and liberals] represents your vision of the economy and the mentor state. But perhaps the state's role should be to outline the framework for a free interplay of market forces? Of course, we all want for things to get better, more rational, and more fair, but who will pay for it?

[Kwasniewski] I value Balcerowicz [author of the shock therapy plan] for his accomplishments in promoting financial recovery during the first half of 1990. I blame him for subsequently failing to include other instruments, chiefly restructuring. Thus, financial mechanisms are operating but the question of what we are entering the world market with remains unanswered, as are the questions of how to shape the domestic market, what to consume, what to protect, and what to do to rouse industry from stagnation. The figures for last year are promising but even if they are fully credible, this still is not a leap of the tiger in the Taiwanese-Korean style. As for the question about money... the budget will be short of funds in the absence of economic growth.

[TYGODNIK POWSZECHNY] There is another way: growth of domestic capital and foreign imports.

[Kwasniewski] Sure, and I would include this in a growth-promoting plan. The problem of foreign capital must be considered objectively, without xenophobia and on clear terms. Because foreign capital will not flow into our country out of love for us or respect for our struggle against communism. Capital has to be provided with preferential treatment wherever it creates new jobs and competes on international markets. Therefore, I would greatly rejoice over the influx of foreign capital, but one has to be realistic—this will not happen soon.

[TYGODNIK POWSZECHNY] Especially if conditions are posed. Is not that lack of realism? We are an indigent country, yet you want to persuade us that it can afford to finance your "third way," that Poland has the necessary resources for it.

[Kwasniewski] Poland has a great potential for growth.

[TYGODNIK POWSZECHNY] Potential, yes, but for the present it is devastated.

[Kwasniewski] Let us not exaggerate that devastation and justify ourselves so facilely. My party shall explore pragmatic and rational solutions linking economic effectiveness to social purposes. The idea of growth for the sake of growth is unacceptable to us.

But we must pose conditions. Of course, not absurd ones. Consider that all foreign entrepreneurs will treat this requirement seriously if conditions [laws] are stable.

But why are not you asking me anything about the Catholic Church?

[TYGODNIK POWSZECHNY] Your comment that anticlericalism is a malaise is enough for us.

[Kwasniewski] I really believe that ignoring the role of the Catholic Church in the Polish reality is simply unrealistic.

[TYGODNIK POWSZECHNY] We think so too.

[Kwasniewski] But I was blamed for sharing a consecrated wafer with the primate, so to speak, following the adoption of the antiabortion law. At the time I told the primate that I hoped we would meet with the church increasingly often to solve social problems.

So the Catholic Church can in no way be disregarded, but the rather dangerous tendency of the church hierarchy to maximally broaden its legal and political elbow-room should not be disregarded either.

[TYGODNIK POWSZECHNY] But that is part of the rules of the democratic game. All the world over there exist pressure groups lobbying for their interests in the parliament.

[Kwasniewski] All those lobbies simply cannot be compared in the extent of their reach with the church lobby in Poland.

[TYGODNIK POWSZECHNY] In the West some people say that the lifespan of democracy in East Europe will be short. What do you think of that?

[Kwasniewski] I am not such a pessimist. But I do perceive three perils: The economic crisis, which favors populist leaders; the ethnic tensions, although they are less acute in Poland; and lastly, the proneness of the people in power to curtail democracy in our countries in face of the complexities of the transition period, the declining social patience, and the illusion that repudiation of democratic methods can result in faster and more effective action.

[TYGODNIK POWSZECHNY] Thank you for the interview.

* Joint MiG Repairs With Ukraine Noted

93EP0177A Warsaw RZECZPOSPOLITA (Economy and Market supplement) in Polish 1 Feb 93 p 1

[Article by Anna Wieloposka: "Will the Iryda Save the Aviation Industry?"]

[Text] Experts have long argued about the Iryda. Designers maintain that it is a Polish tornado ready to face renowned hunters. Pilots sitting at the controls admittedly cite requirements that this plane should meet, but both the first group and the second agree that the Iryda should be part of Polish air defense.

The newest Iryda model was presented on Saturday, 30 January, 1993, in Deblin. The new version of the plane is equipped with K-15 motors manufactured in Poland. The plane design was developed by the Aviation Institute in cooperation with the Defense Plants in Mielec where the prototypes were built. As distinct from the education-training planes used to date in our air force, the Iryda facilitates execution of a wide range of teaching tasks that hitherto had to be implemented with combat planes that were several times more expensive. The designer of the plane (work was started on this in 1987) is Master Engineer Włodzimierz Gnarowski. However, modernizing the Iryda was possible only due to the assistance not only of the Aviation Institute, but primarily due to the Foundation for Polish Science. This foundation supports the Institute with eight billion zlotys, which made research and development of the new plane with the K-15 motor possible.

The first units of the newest Iryda model were turned over to the air force as early as October, 1992. Two of them were tested in the Deblin Higher Aviation School. Testing of 120-hour duration gave satisfactory results. As General Edward Chyra, commandant of the school, said, this facility could use more such machines. The High Command of Polish Armed Forces is also of the opinion that the plane should become part of military equipment as soon as possible. Also present at the meeting, Minister Milewski, counsel on national defense to President Lech Walesa, expressed a similar view of the Iryda. Everyone is, therefore, of the opinion that the Iryda should become combat equipment of the Polish Air Force as soon as possible.

But will there be money for this? This question remained unanswered during the Deblin meeting. There were no representatives of the Ministry of Industry and Trade, but representatives of the Ministry of National Defense said only that their possibilities are limited by the budget and the budget remains unchanged. This means that money for the Iryda will have to be found in some other way.

In addition to the Iryda, a reconditioned Soviet MiG-23 was also presented in Deblin. The question arose as to how true it is that until recently the right to repair MiG's belonged exclusively to USSR specialists. Since the Soviet Union broke up, the problem has remained unresolved. In November, 1991, the Military Aviation Plants in Deblin contacted repair plants in Ukraine. The first MiG's were reconditioned jointly during the past year.

Like other republics of the former Soviet Union and the Ukraine, other postcommunist countries are also interested in cooperating with the Deblin plants; for them, the MiG continues to be the mainstay of their air forces. Hungary was represented at the Deblin meeting. Specifics of the agreements are only at the negotiation stage.

* Progress, Current Communications Status Reviewed

93EP0177C Warsaw RZECZPOSPOLITA (Economy and Market supplement) in Polish 2 Feb 93 p 1

[Article by Zbigniew Zwierzchowski: "Hello... How Can I Help You? Telecommunication After Two Years of Modernization"]

[Text] There are no problems we did not anticipate. Modernization and reconstruction of telecommunications is, however, an operation on a living organism and this is why subscribers frequently have problems when they try to make telephone connections. This is what we were told on Monday at a press conference by Tomasz Depczynski, deputy minister for communications. Also, telecommunication cannot be developed in any way except "from the top," that is, first international connections, then intercity, and later local. Any other sequence would result in a blockade in the telecommunication system.

According to estimates of the communications department, we connected almost 400,000 new subscribers to the network during the past year. This year, we expect 500,000 to 600,000 new lines. In three years, the number of telephones may increase by 1,000,000 annually and 10,000,000, the number of subscribers planned for the year 2000, will become a reality. During the same period, the telecommunication network in Poland will be almost completely state-of-the-art digital. At that time, such problems as making a connection on the first try, verifying subscriber accounts, etc., will be a thing of the past. The minister stressed that improvement will obviously be gradual but should be perceptible even sooner.

Asked why after eight transit centrals in Warsaw were put into operation in December, 1992, subscribers feel that there is even more difficulty with connections, the minister replied that the effects would not be evident until March-April, 1993. The switchover of the existing system consisting of more than 50 centrals to the new system requires making 140,000 subconnections. Not more than 1,000 to 2,000 of these can be made daily. These are technical conditions that are unavoidable and not only in this case.

The minister characterized the results of the process of modernizing telecommunications in the third year of the project as follows:

—Modernization of international connections is in the final phase (two centrals are functioning, the third will be operative soon).

The satellite station in Psary has been modernized and the light pipe cable from Bornholm to Denmark has been installed. Another light pipe cable is being installed from Warsaw to Frankfurt am Main.

—Modernization of intercity connections involves implementing 12 intercity centrals (Siemens has this contract), light pipelines and radio lines. In two years,

the intercity communications structure will be ready with an more than 58 anticipated centrals, of which 34 are in advanced stages of construction.

Also, in many cities, local networks are being rebuilt, but the scale of these investments will increase only when the basic intercity network is modernized. All of these enterprises are being financed by credits from the World Bank and the European Bank for Reconstruction and Development, credits guaranteed by foreign governments, credits of foreign suppliers and by the funds of Polish Telecommunication SA [TP-SA]. Extended credits amount to approximately \$700 million, and TP-SA funds to again as much. In other words, investment in telecommunication involves approximately \$1.5 billion.

Depczynski also told us that, in keeping with earlier plans, a call for bids for privatization of the Warsaw PZT [expansion unknown] plants together with Poznan Teletra plants will soon be announced. The next privatized pair will be the Warsaw Telecommunications Equipment Manufacturing Plant [ZWUT] and the Wroclaw Elwro, but the minister did not give the date of this call for bids more definitely, saying that these matters are primarily within the province of the Ministry of Privatization and the Ministry of Industry and Trade. Also, these ministries will decide what will become of the joint venture partnerships entered into by ZWUT (with Siemens) and Elwro (with Northern Telecom).

Depczynski met with journalists on the occasion of Telecommunication Days events scheduled for 4 and 5 February in Warsaw. This is a marketing fair that the minister believes makes sense, as it will show what Polish telecommunications capabilities will be in the future. In addition to telephony, the current mainstay, there will be transmission of voice, data, and other forms of information.

* Official on Promotion of Foreign Investment

93EP0183B Warsaw RYNKI ZAGRANICZNE in Polish No 9, 21 Jan 93 p 3

[Interview with Bogdan Chojna, chairman of the National Agency for Foreign Investment, by Teresa Radziminska; place and date not given: "Justified Optimism"]

[Text] [Radziminska] I recall that a few months ago you said that you would like to make something on the order of an opening balance, a reliable assessment of the status of foreign investment in Poland. Have you been able to do this?

[Chojna] Basically there was such an opening balance at the time the National Agency for Foreign Investment was established. I am referring to the Main Office of Statistics [GUS] figures at the end of 1991, which, in global amounts, were brought to mid-1992, i.e., practically to the time the Agency began its activities. At that

time this was a sum approaching \$680 million. It covered only the initial capital put in by foreign shareholders. During this same time, the Hungarians and Czechs not only included this capital in their statistics, but they also included liabilities of a contractual character, covered by some form of legal sanctions. That is where the sum above \$1 billion came from in the case of former Czechoslovakia, and over \$3 billion in the case of Hungary. That this methodology of calculation was completely different, very honest in Poland and, I would say, even quite conservative, and extremely optimistic in Hungary, was confirmed during several OECD [Organization for Economic Cooperation and Development] working meetings held last fall in Paris. They pertained to foreign investment studies in Middle-Eastern Europe and concentrated on the methodology of collecting data, with which everyone has trouble.

[Radziminska] What is the methodology generally applied throughout the world and accepted in international statistics?

[Chojna] There is none. I have just received the latest document published by OECD devoted to foreign investment in various countries. It appears obvious from this document that there is no joint, generally accepted method. But we are not too worried about this. OECD is concerning itself with this problem and there is hope that it will soon be solved. Possibly this will happen in Warsaw, in May. That is when there will be a meeting of the OECD Advisory Investment Group, formed last fall, whose organizer will be our Agency. A clarification of these issues will facilitate the preparation of a relevant report on the status of investment in Eastern- and Central-European countries. At that time we should have GUS figures ensuing from annual statistical reports.

It should be added that if these reports had contained three items that had been lacking thus far—country of origin of foreign capital, size of investments declared contractually (expanded version), and investment plans not ensuing from contracts—then the matter of solving the methodology of keeping foreign investment statistics in Poland would be child's play.

[Radziminska] What is standing in the way of including these items in the GUS form?

[Chojna] Collecting and processing statistics is a complicated and gigantic mechanism. These types of organizations throughout the entire world display a certain inertia, and any kind of change requires time.

[Radziminska] Therefore, according to what you say, the methodology should become clear presumably by May; but the Agency, I understand, has already decided to switch to the "optimistic version." That is probably how the information, disseminated by you from the beginning of this year, to the effect that the commitment of foreign capital in Poland can already be assessed at approximately \$4 billion, should be regarded.

[Chojna] I think that is true. Anyway, it is the result of simple calculations. The decided majority of the capital committed in Poland consists of investments made by the first 50 firms. We estimate, by their initial capital, that their worth is well over \$1 billion, and their contractual obligations, in addition, are over \$2 billion. We also have approximately 10,000 joint ventures registered in Poland. But probably half of them are inactive. Thus actually we can talk about approximately 5,000 functioning companies. According to GUS figures, in 1991 the average amount of capital put in by a foreign firm totaled about \$130,000. If this average were correct, then taking into account the relatively large capital invested by the first "50," not much would fall to all of the rest—a few dozen thousand dollars. Thus we have reached the sum of about \$4 billion.

The statistics on foreign investment in Poland are really "made" by Fiat, Lucchini, Marriott, Coca Cola, plus a few other firms. Hence the sudden jump in the total amount and the change in the ranking of enterprises and the country. Hence also the phenomenon that the Italians, in a period of two months, became the leading investor in Poland, thanks to agreements signed by two of the above-mentioned concerns.

[Radziminska] All because the entry level is very low.

[Chojna] You are right. The foreign investment sector in Poland is still so small that concentrating on rankings and statistics can lead to the wrong conclusions. We must be aware that the process is studied as it is underway and everything is very fluid.

[Radziminska] I would like to return to one more statement made a few months ago, that you are planning to make an honest summary of investment conditions in Poland and in countries similar to ours. How did we come out in this analysis?

[Chojna] Not at all bad. Poland does not differ in anything in particular, not only from other Central and Eastern European countries, but also from the West, perhaps with the exception of Ireland. This country offers investors extremely convenient tax terms, which is the result of bold political decisions.

In most European countries we see terms very much like those in Poland, i.e., almost no sector demands that a license be obtained, the income tax on legal persons is about 40 percent and the speed with which the formalities connected with establishing a firm are settled is similar. However, in Poland the laws pertaining to transfer of profits are more liberal than in certain other states, e.g., in Hungary.

The opinions of foreign investors regarding Polish regulations on acquiring real estate are also quite favorable. Although the permission of the minister of internal affairs is required, permits for commercial purposes are granted rather generally. But this does not apply to farmlands, for there is no general agreement in Poland on the creation of foreign latifundiums. But on the whole

this approach is quite liberal. In some countries it is completely impossible for a firm, owned 100 percent by foreign capital, to buy real estate.

On the other hand, foreign investors in Poland are critical insofar as a certain vagueness of concepts is concerned, and about the lack of preciseness in regulations, particularly in questions pertaining to the granting of licenses and tax allowances. This makes it possible for officials to interpret them as they please, and thus to make decisions in an arbitrary way. And no one likes that. But generally in the last OECD report we come out about average from the standpoint of conditions created for foreign capital.

[Radziminska] Average, which means not bad, but neither does it mean particularly good. Many other countries offer, for example, investment allowances, which we in Poland do not.

[Chojna] Yes, that is true. Recently this subject is being discussed quite generally. Lack of such allowances certainly is not encouraging, just as high Social Security rates are a disincentive. But reservations of this type relate not so much to the legal standards that apply to foreign investors as to the general conditions under which economic activity in our country is being conducted.

[Radziminska] The agency has set a large number of goals for itself. You want to promote Poland throughout the world, as well as foreign investments in Poland, conduct research, provide information to potential investors, attempt to bring partners together, etc. What do you believe to be the most important task?

[Chojna] Among daily, less spectacular activities, I would put providing information to potential investors as the top priority. This is the humdrum, ongoing work performed by a 10-person group that works together with a few information processing specialists. It produced approximately 1,500 so-called "informational transactions" during the first six months of its existence. Another issue, which seems to be extremely important, is research on foreign investors in Poland. We have established a research center—consisting of a few people, for the time being—which is assisted by an advisory group made up of representatives of ministries, academic circles, and businessmen.

[Radziminska] What, then, is worth studying, or what should be changed in the regulations to make things better?

[Chojna] Because this center was formed only a few months ago, it is just beginning to determine what it wants to be. With the help of the advisory group, we want to define the directions of research. Naturally, monitoring current events has already been determined to be basic. One tangible result of the center's activities was the organizing of a bidding competition to perform certain statistical and economic studies. Everything is

already prepared. The contract is ready to sign, all we need are funds to finance the studies.

Promotion is a far more complex matter. Its scope, as you can imagine, is incredibly wide. At present, the implementation of one project is drawing to an end. I am referring to the publication—jointly with the British—of an encyclopedia of Polish industry. In addition to a review of respective sectors, it will contain a description of the status of the Polish economy, investment opportunities, etc.

We also have many more projects. They begin with a series of films about foreign investors in Poland. This has already been coordinated with Polish Television. The series would help in the struggle with xenophobia and in overcoming certain negative stereotypes of thinking. Pilot segments are already being produced. US AID money has already been granted for this purpose. But there is a frightening inertia of all mechanisms connected with releasing the sums of money promised to Poland from abroad, and I have already personally experienced it. Usually six months passes from the time a declaration is made until the money is received—sometimes even a year. This is maddeningly discouraging, particularly when the person involved comes from a private business environment, where a decision to expend money is made very quickly.

[Radziminska] We have thus come to the less pleasant financial matters. There has been talk of late about the Agency's money difficulties. It does not seem possible that you could—by assumption—find yourself at the financial mercy of foreigners, yet the state treasury has not provided money for your purposes. Is there a desire to force you to earn money for yourselves in this way?

[Chojna] Two basically different models of operation for an institution such as our Agency are possible. The model that I would like to implement is the promotion-information-advertising model, one that does not envisage earnings. The agency should, in an indirect way, help to augment the revenues that the state receives from the presence of foreign investors in our country. Of course, this model requires that we be subsidized in the amount of a few dozen billion zlotys annually.

The second model is the earnings model, a commercial one that makes something on the order of a consulting office from this agency. I believe this solution to be unacceptable because it would take advantage of the name "national agency" to make money. And this would be its own kind of abuse.

[Radziminska] Has such a model been accepted anywhere in the world?

[Chojna] Only in Costa Rica.

[Radziminska] Thank you for the interview.

* Development of Electronics Industry Described

93EP0183A Warsaw GAZETA PRZEMYSŁOWA I HANDLOWA in Polish No 4, 26 Jan-1 Feb 93 p 4

[Article by Aleksander Malkiewicz: "Chamber Proposes Solution to Duties Problem"]

[Text] The electronic industry, including the production of commonly used equipment, plays the same role today as the automobile industry played in the past. So say the specialists and we should probably believe them, because electronics has generally stimulated overall technological advancement in the economy, and in the broader dimension, it has also promoted cultural development. A meeting of producers and salesmen—members of the National Chamber of Commerce in Electronics, and journalists—was devoted to problems of the industry producing common-use electronics equipment.

The Chamber was formed recently. The organizing meeting of its members—state and private production and sales enterprises of the electronics branch—was held on 27 November 1992 in Warsaw. Zbigniew Niemczycki, president of Curtis International, was elected chairman. One of the Chamber's goals will be to fight for the creation in Poland of operating conditions on the same principles and rights as firms and salesmen from the West and the Far East enjoy on the Polish market. Our competitors, according to Chamber representatives, always have better and more convenient terms and it is easier for them to compete, price-wise, with Polish producers.

In sharing his many years of experience, Niemczycki observed, for example, that when he introduced the equipment of the Japanese firm "Otake," five years ago, everyone became very enthusiastic. He then considered whether only imports will have a future and came to the conclusion that relying only on imports of consumer goods without investigating the possibility of developing domestic production has no future. Our superiority over our Central and Eastern European neighbors stems from our engineering experience. He verified this in Mława, a small town in the Mazowsze region, where he found both electronic engineers and technicians in various specialties. When they started up their own production plan, they began with the simple assembly of wholly imported subassemblies, so-called SKD [foreign electronic component]. After a year they began to assemble subassemblies wholly made in the factory, partly of Polish production. Today 80 percent of the subassemblies in the "Curtis" television set, including the videodisk, are produced in Poland. And these parts are of the same quality as Western parts, and are cheaper.

Niemczycki was warned that bringing a new Polish television to the Polish market is risky, but it turned out that sales did not drop and neither did confidence in the producer. Of course, smuggling and taking advantage of legal loopholes in the importing of audio-video equipment, which still occurs, is a problem. But soon the producers established good cooperation with the Main

Customs Office and the Ministry of Foreign Economic Cooperation. Naturally, making conditions for the domestic conditions comparable with those of the importers will take a little longer, but the Chamber makes it clear that it will not strive for any kind of customs barriers or simplifications.

When Niemczycki began, the duty on certain subassemblies was higher than on certain products. To this a sales tax had to be added, a tax going back to the 1970's and called a luxury tax. This tax was changed to a sales tax and still remains. It was raised by several percent on 17 December 1992. This, of course, makes for more smuggling and evasion of the import law, because the higher the tax, the greater the profit for importers. Add to this the lack of a cohesive duty-tax policy. The producers complain that frequently they have to explain to the responsible officials in the ministries what the difference is between CKD [Polish electronic component] and SKD production. For its part the Chamber proposed that a new customs fee table be set up, one that fits EC requirements. But when it comes to constructing a customs fee table, the officials become afraid of what the EC will say about this. The fact is that we should ask ourselves: what will the domestic producer say, and not EC. Naturally, we should adapt, but we should not yield to any pressure. It would be well at this point to refer to the example of our neighbors. When the Germans, in 1991, had trouble selling audio equipment because the Far Eastern countries were dumping, the duties were raised immediately, without regard to what the EC partners were doing, because they were simply defending their market. We, too, must fight for equal opportunities, for competitive terms on the electronics market. This means that some small preferences for domestic producers and importers must be granted so as to equalize things. After all, we cannot go directly from the CKD to the SKD stage. We have to change certain habits and raise productivity. Only after comparable terms were obtained could Curtis decide to go into export production and ship its television sets to Holland, Denmark and West Germany.

It is paradoxical that to this very day, Polish producers are required to comply with ceilings, i.e., quotas on export of finished products. Even last year, this ceiling, negotiated by our officials, amounted to scarcely 30,000 receivers, i.e., about as many as the monthly production

of the Elemis or Curtis television plants. Yet hundreds of thousands of picture tubes come into Poland duty-free as part of "Euro 1."

Past contacts between businessmen and the ministry decisionmakers do not imbue us with optimism. Even quite recently many hours were spent in jointly discussing tax-duty problems. Tariffs, adapted to EC requirements, were established in July and everyone left for vacation feeling that all had gone well. Yet in August a new table was published that in no way resembles the one that had been agreed upon, and what is most interesting is that no one knows "who mixed things up" and why.

Niemczycki has seen the table of custom tariffs go through nine changes since he opened the factory in Mlawa three years ago. Due to the instability of the taxes and tariffs, Curtis has stopped making any kind of investments, and other domestic and foreign investors are doing the same. This is the result of the bad tax strategy practiced in the ministries. The officials mistakenly assume that the taxes and duties collected for imported goods can compensate for the losses caused by the halting or reducing production after successive increases in sales taxes (by several percent last December).

Roman Kluska, owner of the Optimus firm which produces PC computers has similar problems. The computers, assembled partly from subassemblies imported from the United States and Japan, and partly from subassemblies produced in Poland, have become known throughout almost the entire world. They are held in high regard because of the quality of production, hence they are exported to Panama and ... Japan. But the ability of the firm to expand was disrupted by the decision of the officials to apply a 20 and 15 percent duty on the computer's parts and subassemblies beginning on 20 March last year, a decision that Kluska considers unwise. When the profitability of Optimus production is 5-7 percent, increasing the duty puts into question the ability to effectively compete with Western and Far Eastern producers in view of the zero duty rate on finished computers.

Andrzej Kaczmarek, president of the newly organized National Chamber of Commerce in Electronics, announced that the producers and sellers of common-use electronics equipment do not intend to end their fight for equal opportunities with Western producers.

*** Constitution Said in Need of Revision
bat[NOVE SLOVO BEZ RESPEKTU 1 Feb]**

93CH0366A Bratislava NOVE SLOVO BEZ
RESPEKTU in Slovak 1 Feb 93 pp 8-9

[Article by Ladislav Orosz, doctor of Jurisprudence and
Candidate of Sciences: "Without a Hallmark"]

[Text] As a whole, the Constitution of the Slovak Republic meets even the highest requirements of quality. However, if we subject it to a more thorough analysis from the point of view of legal theory, it is hard to give it a mark of high quality. The final version of the Slovak constitution was considerably affected by time pressures mainly for political reasons. Neither can one disregard the fact that it was adopted under the conditions of the federative state, albeit with the intention (frequently openly proclaimed by certain political representatives) that it serve in the future as the constitution of a sovereign and independent state.

That was also the reason why certain constitutional stipulations concerning the area of state operations—such as foreign policy, defense, internal security, which at the time when the constitution was adopted were predominantly in the competence of the federation—were formulated in the constitution in very general terms or completely omitted.

Problems With the Head of State

Let us start, for instance, with an analysis of the stipulations for the election of the president of the republic. The text concerning that topic is quite truncated, yet categorical. The National Council of the Slovak Republic elects the president by a secret ballot. A three-fifth majority of the votes cast by all deputies is required for the election. It is evident even to a layman that it may happen that the majority stipulated by the constitution could not be achieved in the parliament and it would be practically impossible to elect the head of state. Although one may subscribe to the idea that the head of state should have the support of the broadest possible spectrum of political forces, the constitution must also provide a solution for a situation when no broad consensus can be reached on the election of the head of state. At a certain stage of the election process—after several ineffective ballotings—more liberal conditions should facilitate the election. Constitutions of most countries contain such provisions.

Potential problems that may occur during the election of the head of state should be seen in conjunction with provisions concerning the exercise of presidential powers in the event that there is no elected president in office. The amendment contained in the Constitution of the Slovak Republic is, in my opinion, inadequate at least in two points. According to traditional provisions in modern constitutions, the representation of the head of state is proportionally divided among several constitutional factors or constitutional bodies—in general, the government or the prime minister, and the chairman of

the legislative assembly. According to the Constitution of the Slovak Republic, the exercise of presidential powers in that case is concentrated solely in the hands of the government or the prime minister, which upsets the balance of powers; under certain circumstances it might provide support for authoritarian proclivities. Even more important is the fact that during a period without an elected president, no other constitutional body is authorized to exercise certain presidential powers. By the same token, this is not a question of some irrelevant powers—rather, the opposite is true. For example, the government as a whole, and even individual members of the government, cannot be recalled; heads of central agencies and some higher state functionaries, for instance, the judges of the Constitutional Court of the Slovak Republic, cannot be appointed and recalled, and so on.

Questions Without Answers

One of the important roles of the Constitution is to safeguard the continuity of state power, the performance of all state operations and thus, legality in any situation. In this respect, several objections may be raised against the Constitution of the Slovak Republic. According to the Constitution, the only constitutional and legislative institution of the Slovak Republic is the National Council of the Slovak Republic, which is precisely for that reason—and unlike the former Slovak National Council of the Federal Assembly—defined as a body that meets (operates) on a continuous basis. However, what will happen if parliament cannot meet under certain emergency conditions (naturally, I do not want to conjure them, but the Constitution must consider them)? Who in its stead will perform the legislative functions of the state? The Constitution fails to answer this question because it does not contain any amendment of the so-called authority by order (authorization to issue decrees with the force of laws). Analogies from other countries offer various solutions. The authority by order belongs either to the head of state or to the government, and in some cases, to a certain agency of parliament (for instance, to its executive board—as customary in our country before the Constitution of the Slovak Republic was adopted) with the proviso that the adopted decrees must be subsequently approved at the next meeting of parliament.

The above-mentioned flaw is but one part of a larger problem because the Constitution of the Slovak Republic does not stipulate—or does not stipulate adequately—the exercise of state power at a time of internal threat to the state. If we analyze the constitutional matters more thoroughly, we find a single stipulation concerning these problems. According to it, the president declares a state of emergency (i.e., the above-mentioned state of threat) pursuant to the constitutional law. However, we do not learn from the Constitution for how long a period the state of emergency may be declared, who can revoke it and when, how do state agencies act in such a situation, what services are performed—or may be performed—by the military and

other armed forces, whether certain constitutionally guaranteed rights may be restricted during the state of emergency, and if so, which ones and to what extent.... In developed democratic states separate chapters of the constitution generally stipulate such problems in detail. However, still another solution is available: A separate constitutional law deals with problems related to the mechanics of the exercise of state powers during a period when the state is endangered from within as well as from outside. Such constitutional law, however, must be drafted and approved under normal conditions—i.e., in peacetime—and not at the moment when the threat—be it from within or from outside—is already in evidence.

Corrections Are Imperative

Naturally, one could discuss and debate a number of other stipulations as well. In all probability, debates will be in a sharper focus before long not only in our professional but also in daily publications, and it is my personal belief that they will be promptly conducted in parliament. Although the purpose of the Constitution is to act as a stabilizing factor of law and order, it is self-evident that its frequent changes diminish its authority. However, it is highly improper to create an impression that precisely those reasons render the Constitution untouchable. It is absolutely necessary to make certain corrections. It would not only be advantageous for our society but also serious and correct if the corrections are made by the same body whose lack of consistency had caused them—i.e., the National Council of the Slovak Republic in its current composition. I should like to believe that before the end of its election term, it will restore its reputation in this respect.

* Lack of 'Bank Product' in Slovakia Decried

93CH0395B Prague *EKONOM* in Slovak 4-10 Feb 93
pp 27-28

[Interview with the president of the General Bank of Credit, Inc., Eng. Jozef Mudrik, by Marcela Zabojsnikova; place and date not given: "We Lack the Bank Product: Money"]

[Text] In accord with the program of the Czechoslovak economic reform now being implemented, the Czechoslovak State Bank included the General Bank of Credit in the first wave of the large privatization. According to the privatization plan worked out by the bank management, the financial institution General Bank of Credit (VUB) was transformed into a corporation effective 1 April 1992. The founder of the corporation is the National Property Fund of the Slovak Republic. The initial capital of the corporation is 2,039 million Czechoslovak korunas [Kcs], which was split into 2,039,000 shares, each having the face value of Kcs1,000. According to the privatization plan, 52 percent of the shares will be distributed by the coupon privatization method, 45 percent will remain the property of the SR

[Slovak Republic] National Property Fund, and 3 percent will be used to satisfy requests for restitution. The president of VUB, Inc., is Eng. Jozef Mudrik, whom we asked for an interview.

[Zabojsnikova] How, in your view, is the banking system developing in comparison to the pace of the overall economic transformation?

[Mudrik] It is generally known that the banking system was rather undeveloped here, especially in Slovakia. As late as the end of last year there were only eight banks in Slovakia, while in the Czech Republic [CR] there were 34. The number of employees in the banking system of the former CSFR in Slovakia represented not quite 24 percent, which indicates that the situation still cannot be very good. During the course of last year we were working on some plans for joint ventures with foreign banks, but because of the planned changes in the state setup many held back. Now that these issues have been clarified, our partners are coming back to us. Many foreign banks will obviously appear in Slovakia within a short time. One of them is the French bank Credit Lyonnais Paris, one of the most prominent banks in the world, which will establish together with VUB a joint bank in Bratislava. I see the greatest problem not so much in the developing of market institutions, as in the fact that we lack the product in which banks trade, that is—money. It is connected with the overall dynamics of the economy, where the decline continues. In Slovakia we still have not reached the bottom; generation of profits, payments into the state budget, etc., are declining.

[Zabojsnikova] Is it an objective fact or merely tendentious information that apart from the People's Bank, other financial institutions do not have enough funds at their disposal for developing business activity in Slovakia?

[Mudrik] I do not have the balance sheet of the People's Bank at my disposal, but obviously it is good. However, its scope of activity and the amount of capital the bank has to work with is such that no matter how good its liquidity is, it cannot have any significant impact on the development of Slovak economy. We are the largest bank in SR, and our total balance, which represents about Kcs130 billion, is also the largest. That is why the shortage or surplus of finances manifests itself, understandably, here the most. As I told you, the condition of the economy is still bad; many enterprises were unable to cope with the transition to a market mechanism. True, what is needed for the restructuring of the economy, privatization, and modernization of the production base is again money. And we do not have it. That is also connected with the state of people's income, a certain inflation which, although relatively low, nevertheless had an impact on the growth of deposits, which in Slovakia at the end of the year was not very positive. All banks follow the rules of liquidity, therefore they extend credits only to the extent to which they have created resources. And those come from people, enterprises,

financial institutions, from the state bank. Although deposits by the private sector have been increasing, deposits by state enterprises and state corporations have been declining.

Problems were created for us also by the change in the refinancing policy of the former Czecho-Slovak State Bank [SBCS]. We had an agreement with that institution on a certain development of credits during the course of the year, which assumed a moderate growth of the total volume of credit. In September 1992, SBCS—I believe partly also because of the political situation—changed its approach and began to gradually limit the refinancing of banks, which had a great impact on us as the largest Slovak bank. In order to follow the liquidity rule, we solved the situation by reducing credit. Naturally, this lack of resources manifested itself also in other banks. That is why the business sphere in general suffered from a scarcity of money. Moreover, SBCS at that time—in my opinion—had a double monetary policy: on one hand it was yielding to pressures, was reducing the discount rate and thus influenced also other commercial banks, and then suddenly without much of a warning changed this approach and began to reduce refinancing and create a heightened demand for money. Simultaneously it began to raise the interest on refinancing credit to commercial banks up to 20 percent. On one hand, therefore, it was lowering the discount rate, but in reality it was following a precisely opposite policy. This, of course, could not have had a good impact on the work of the banks, or on the work of the economic sphere.

[Zabojnikova] Let's talk now about the activities of foreign banks in Slovakia. How do you evaluate them?

[Mudrik] Naturally, any criticism directed at a foreign bank could sound like fear of competition. But I shall give you my opinion nevertheless. Foreign banks are forcing us into a speedier development of banking services, range of products, and quality of services, and that is the right thing to do. But it would be helpful if they would also bring in financial resources, which would create a better balance between supply and demand on the money market. It would have a positive impact on interest rates. Unfortunately, no foreign bank is bringing to Slovakia—or, as far as I know, to the Czech Republic—its own money other than deposits for initial capitalization. Besides the mentioned French bank, two Austrian and one Dutch bank are active in Slovakia.

[Zabojnikova] Can you tell us what is the current strategy of the General Bank of Credit?

[Mudrik] Our bank took over the clientele of the former SBCS in Slovakia, which primarily comprised large state enterprises, agricultural cooperatives, and state properties. Since we are a large bank, we do not want to specialize in any way, on the contrary, we want to broaden our range of activity to include other types of clients. We are turning our attention to the private sector, which we strongly support; at present it receives about 20 percent of our credits. It is viable, which is also

manifested by the fact that the amount of money in the accounts of private entrepreneurs keeps increasing, whereas in the state sector it is decreasing. We do not want to be too dependent on resources that we obtain from other financial institutions. Therefore we shall offer the so-called Retail Banking, providing banking services on a small scale, through which we shall expand our range to provide services to the public. We created special divisions, whose goal is to substantially increase our orientation toward the general public, securing deposits and providing services to the people. We have in mind deposits in korunas as well as foreign currencies; we are installing a network of automated tellers, we calculate the movement in accounts daily, in contrast to other financial institutions, and we provide a number of other advantages which will help us to gradually attract people to our bank. We want to provide services also to institutional investors, to whom we offer not only services for making deposits, but we are also able to increase the value of their deposits through investment banking, etc. We are interested in providing services to communities and towns.

Our second line of strategy is to provide comprehensive services in the koruna and foreign currency sphere, as well as in investment banking. We created the so-called division of firms, which is based on the principle that a firm or a single entrepreneur has a partner in the bank, able to mediate or provide comprehensive services with the help of our specialists. Our goal is to build the General Bank of Credit into an all-inclusive bank.

[Zabojnikova] Do you expect that internal and, of course, also external influences will cause some changes in the area of banking and the capital market?

[Mudrik] I could say very briefly that at a certain stage when we were resolving our state setup problems, foreign partners began to exhibit some hesitation, putting some projects on hold and even turning away from some almost finished projects. Many said to us: "Excuse us, but we do not know what will happen here, the situation is unclear, we shall see later." We lost time because of it. But when toward the end of the year the situation began to clarify and it became obvious that the division of CSFR will be accomplished peacefully, that most countries will recognize both republics, and that they will be recognized also by international institutions such as the IMF, the World Bank and others, our partners began to come back to us.

And while we are talking about foreign countries, let's mention one more thing. In the past, the Czechoslovak Commercial Bank had a monopolistic position in the former CSFR as far as foreign operations were concerned. To obtain foreign credits is not a simple matter. Before that can be accomplished, you have to go through a rigorous procedure in certain institutions, mostly insurance, which evaluate your situation, make an economic analysis, and then it depends on the result whether they will approve you. Only then are the banks of the country in question willing to extend credits to you

in a certain amount and for a certain period of time. We have succeeded already in 1991 in securing two foreign credit lines. Today we have 11 of them, the latest one is from France in the amount of 80 million French francs. We already have a specific use for it, namely, to import technology from France as well as other countries. Since in Slovakia there was no bank with a position such as the Czechoslovak Commercial Bank has held, it naturally meant a considerable loss of time for us; but we shall make it up. However, I would like to talk about another matter, which has a bearing on this. Banks around the world collaborate closely with each other. We shall therefore cooperate all the more also within the framework of the former CSFR after its division. In our Prague VUB branch I met with the director general of the Czech and Moravian Guaranty Bank, Eng. Macek, and we signed an agreement according to which that bank will provide guarantees to our clients in the Czech Republic.

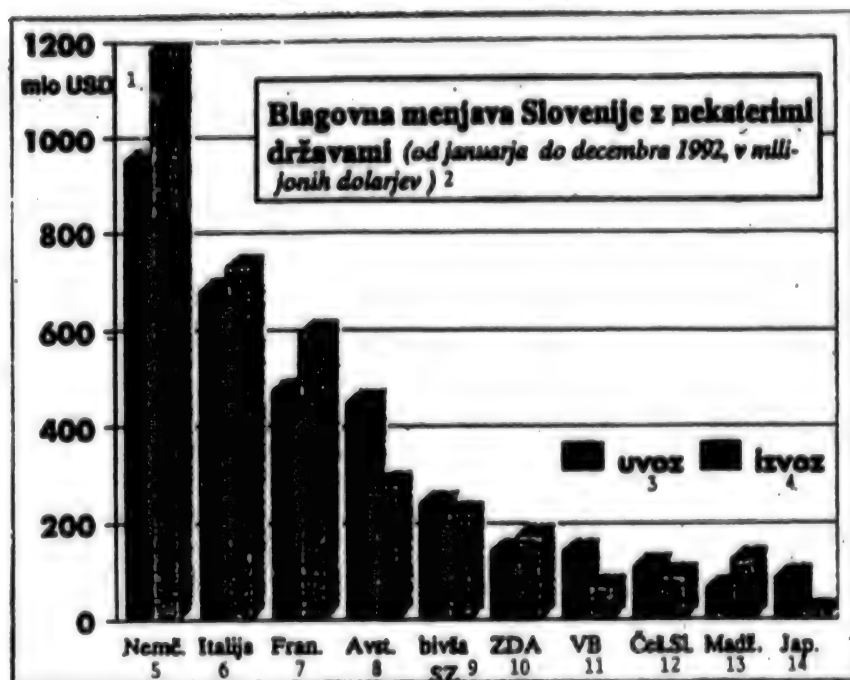
[Zabojnikova] Will this cooperation between the banks in CR and SR continue even if there is a currency separation?

[Mudrik] In that case, our Prague branch will become a VUB branch abroad, and we shall cooperate with banks in CR in the way we cooperate with banks in Austria and elsewhere. I am convinced of that, because the overall economic cooperation will be strong even in the future.

[Zabojnikova] What is your idea about the activity of the General Bank of Credit, say, in the year 2000?

[Mudrik] This is looking rather far into the future. Similarly as other banks, we, too, have been working already for the second year on implementing the concept of fundamental modernization of the bank. At its core is the plan for introducing an automated information system. This is an investment that exceeds Kcs1 billion, and its purpose is to formulate the bank's new strategy for the new conditions. The notion of what our bank will be like in the years 1996-97 will be, naturally, modified by life itself. We determined our business strategy on which we based our new organizational structure and extended the network of our branches, mainly in Slovakia. But we also already built our branch in Prague, we have a representation in Moscow, and we have investment plans in a bank in Germany. Of course, we also want to broaden our range of services, the so-called bank products, and their quality. At present the first stage of realizing this project is under way; its substance is the improvement of the central computer system, but especially its branch extensions. Every branch will have some equipment that will ensure automatic processing of all products, linking every branch to the central computer system, and ensuring their cooperation within a reasonable time. During the course of this year we expect to introduce this system in one half to three-fourth of our branches, of which there are 40 in Slovakia, with 129 more being planned. The rest we shall complete next year. In future years we shall add more services, especially in the area of foreign operations. I expect that in the course of two or three years our bank will function the way any bank does in the neighboring countries with developed market economy.

Slovenia's Trade With Several States



1. Millions of U.S. dollars
2. Slovenia's Trade With Several States (from Jan to Dec 1992, in millions of dollars)
3. Import
4. Export
5. Germany
6. Italy
7. France
8. Austria
9. The former Soviet Union
10. United States
11. Great Britain
12. Czechoslovakia
13. Hungary
14. Japan

1992 Trade Statistics Published

93BA0664D Ljubljana DELO in Slovene 19 Feb 93 p 1

[Article by Goran Novkovic: "We Are Exporting Favorably to the West, but in the East the Balance Is Negative"]

[Text] Last year trade between Slovenia and Germany exceeded the value of \$2 billion. Furthermore, Slovene exports exceeded imports by \$230 million. Slovenia's second largest trading partner—the former Yugoslav partners are not taken into account in all the data—is Italy, with which we traded more than \$1.4 billion in goods during the same period. Trade with France almost reached the value of \$1.17 billion, and trade with Austria

exceeded \$730 million. These are Slovenia's four largest trading partners, with imports exceeding Slovene exports only in trade with Austria.

The area of the former Soviet Union and the United States could also be included among Slovenia's major trading partners. Trade between Slovenia and the Soviet Union's successor states reached the value of \$464 million last year, and trade with the United States only amounted to \$319 million. We imported more from the area of the former Soviet Union, and exported more to the United States.

Among the developed states, Great Britain and Japan, which have completely different trade balances with

Slovenia, are also important to Slovenia. Whereas Slovenia exports twice as much to Great Britain as it imports, it imports almost five times as much goods from Japan as it exports.

Slovenia's largest trading partners in East Europe are the former Czechoslovak federation and Hungary. Trade with these two countries last year amounted to about \$424 million. Slovenia imports considerably more from both countries than it exports.

Last year total Slovene exports were higher than in 1991, and even exceeded the record exports in 1990, which amounted to more than \$4.12 billion. Last year's total imports were approximately at the same level as the year before, and considerably smaller than the record imports in 1990, which amounted to more than \$4.7 billion. Slovene exports last year amounted to somewhat more than \$4.18 billion, and imports exceeded \$4.13 billion.

Slovenia exports considerably more (\$2.82 billion) to the EC states than it imports (\$2.42 billion). The only exceptions are the Benelux states, Portugal, and Spain. Trade with those states, however, only represents a minor part of trade between Slovenia and the EC.

It is completely different with respect to trade between Slovenia and the EFTA countries. Slovene enterprises import more from almost all the EFTA states than they export there. The only exception is Norway. Most of the trade between Slovenia and the EFTA states consists of trade between Slovenia and Austria, but we also do a considerable amount of business with Switzerland and Sweden.

During the last four years Slovene exports to the EC and EFTA states have grown constantly. In 1989 exports to

the EC members amounted to \$1.75 billion, and last year, \$2.82 billion. Slovene exports to the EFTA states in 1989 amounted to \$308 million, and last year, \$385 million.

Imports from the EC and EFTA states increased in 1990, and then decreased a year later, and last year imports from the EC decreased further, but imports from the EFTA states increased. In 1990 imports from the EC amounted to \$2.76 billion, and imports from EFTA members, \$625 million. Last year Slovenia imported \$2.42 billion in goods from the EC, and \$621.5 million in various products from the EFTA states.

Exports to the Soviet Union's successor states declined continuously from 1989 on. Whereas Slovenia exported \$469 million in various goods to that market that year, in 1992 these exports only amounted to \$222 million. Imports from the former Soviet Union have also declined continuously since 1990, when they amounted to \$300 million, and last year they amounted to \$242 million. It is interesting that even four years ago Slovenia exported more goods to the Soviet market, but last year it imported considerably more goods from the Soviet Union's successor states. Slovenia also imported more products from other East European states than it exported last year. The only exceptions are certain states that only have a small volume of trade with Slovenia, and Poland, to which we exported four times more goods last year than we imported from it.

Some of Slovenia's other major trading partners are Turkey, Iran, Saudi Arabia, Egypt, and Canada, to which we export more, and India, China, Taiwan, Korea, Algeria, Libya, and Brazil, from which we import more goods. Trade with Australia is fairly balanced, but amounts to only \$29 million.

Macedonia

Minister of Economy Stefanov on EC Aid

93BA0560A Skopje VECER in Macedonian
27 Jan 93 p 9

[Interview with Economy Minister Petrush Stefanov by S. Padori; place and date not given: "ECU's for a Warm Winter"]

[Text] Humanitarian aid of a value of 8.9 million ECU's [European Currency Units] is to provide 25,000 metric tons of fuel oil (for central heating) and 10,000 tons of diesel fuel (to operate installations of particular public importance), along with crude petroleum to be refinery processed to obtain 25,000 tons of fuel oil, 10,000 tons of fuel oil, and 700 tons of gasoline. The money earned from the petroleum derivatives sold will be invested in facilities of public importance, primarily for ecology, water supply, food production, health care, and the like. The coupons will stay, and new prices are on the horizon. Economy Minister Petrush Stefanov was interviewed.

After the oil crisis of the last quarter of 1992, to judge by the improved situation at the beginning of 1993 the coming months should be easier for us than the same ones last year. A considerable contribution to improvement in supply has been made by the Skopje and Makpetrol refineries, which have obtained two tankers of crude oil amounting to 100,000 tons, and have also arranged for transportation from the dock in Solun. However, a large contribution to solving liquid fuel problems will also be made by the European Community with its outright donation of humanitarian aid. In Skopje last week the EC agreed to provide 8.9 million ECU's of petroleum derivatives for Macedonia. We interviewed Macedonia's economy minister, Petrush Stefanov, about the EC initiative, creation of an available reserve of liquid fuels, coupons, and imports.

Aid and Restrictions

[Stefanov] The proposal for humanitarian aid in the amount of 8.9 million ECU's (about \$11.125 million) for petroleum derivatives came directly from the EC. The agreement called for delivery of 25,000 tons of fuel oil to be sent for the Skopje municipal heating system and 10,000 tons of diesel fuel for especially important installations (health care, municipal cultural activities, bakeries, dairies, farms, and so forth). Macedonia is also to receive crude petroleum to be processed in the Skopje Refinery to produce 25,000 tons of fuel oil, 10,000 tons of diesel fuel, and 700 tons of gasoline. All the raw materials and derivatives will arrive from the direction of Greece. The money earned from sale of the derivatives will be invested in facilities of public importance, primarily for the ecology, water supply, food production, health care, and so forth.

As regards scheduling of the arrival of the petroleum aid, the schedule is now being negotiated, and no problems are anticipated. As Stefanov points out, emergence from the crisis is reflected not only in the shorter lines at the pumps and the supplies for businesses but in replenishment of Macedonian national stocks, which were exhausted during the days of the collapse. The amounts of crude petroleum and the aid to come from the EC hold forth promise that by the end of the year consumers will have a normal supply of the fuels they need. This gives the government and businesses breathing space for importing new amounts.

[Padori] While we know that supply has improved, can we also expect prompt lifting of the restrictions, that is, the coupons?

[Stefanov] In a normal situation the government would unquestionably want to have higher consumption of petroleum derivatives, because a large part of the receipts go to the country's treasury. However, we believe that we must be very cautious. It is more important for us to have an assured two-month supply of petroleum derivatives to prevent being surprised by a problem that might come up than it is to eliminate the coupons and leave ourselves open to the risk. It is better to have moderate consumption leaving a reserve and providing psychological security that the last petroleum supply failure will not recur.

Prices and Imports

[Padori] Now that many prices are moving upward, the problem of the day seems to be that of when petroleum derivatives will also become more costly, because in comparison to other commodities and the increased cost of foreign currencies, sale of fuel at 60 pfennigs a liter is obviously intolerable to both producer and merchants.

[Stefanov] The government has already received requests for adjustment of the prices of petroleum derivatives, and these requests are now being considered, because all the aspects of requests must be examined. For example, the analyses made in 1992 indicate that the prices of goods and services that the government monitors (and maximizes) have risen much more slowly than other prices. As an example, they have risen 45.8 percent more slowly than the prices charged by the manufacturers of industrial products and 59.3 percent more slowly than retail prices, and so they have been kept fairly low.

[Padori] Inasmuch as the supply of petroleum derivatives will be normal during the winter months, what will the pattern of supply be over the entire year?

[Stefanov] The basic concept is importation of crude oil and processing at the Skopje Refinery. Of course, the derivatives that are not in the production program will have to be imported. It will also be necessary to intervene with finished products if consumption peaks occur. As for use of the annual reserve resources, in 1993 as well their disposition will involve two unknowns. On the one

hand there is the problem of securing foreign exchange, and on the other the problem of operation of transportation by way of Solun is just as vital. Otherwise, in addition to the freight carriers Makpetrol and the refinery, which is purchasing crude petroleum on its own account, there will continue to be room as importers for all those who show interest and meet the requirements. What I have in mind above all are the many enterprises that have been solving problems on their own in past months, but private businessmen as well. However, good business performance and financial soundness will be required of the latter. Approvals will not be issued to persons who request importation of 1,000 tons of diesel fuel and have, say, only 5,000 dinars in their account. At the same time, persons who were approved last year but did not avail themselves of their approvals and now are applying for new ones must turn in the old ones in order to eliminate doubts that these approvals have been sold.

In any event, this year will be an especially interesting one. Smaller amounts of petroleum derivatives may be consumed in 1993, and if there is no further deterioration of the situation around the country and transshipment through Yugoslavia continues to operate, it is assumed that the normal volume of production and exports will be maintained, and along with it inflow of foreign currency resources for purchase of crude petroleum. Whatever may happen, the experience gained last year, when the economy obtained what it needed for its survival, was beneficial. Probably nothing worse will happen to us.

*** Organizing First Macedonian-Bulgarian Bank**

93BA0560B Skopje VECER in Macedonian
29 Jan 93 p 6

[Article by V.M. Bozhikovska: "No Limit to Capital—First Macedonian-Bulgarian Bank"]

[Text] *The idea of forming such a bank is about to come true, since the National Bank of Macedonia is expected to*

adopt a favorable position after the permission granted by the Central Bank of Bulgaria.

On the initiative of the Balkan Bank in Sofia, the first Macedonian-Bulgarian bank, the Balkanska Banka-A.D., Skopje, is expected to open toward the middle of next month.

The private financial organizations in Bulgaria, the First Financial and the Balkan Bank, are the stated founders of the joint bank, while the cofounder in Macedonia is a private business, United Consultants of Skopje. The total original capital of this financial institution is 900 million dinars or 1 million German marks, of which two-thirds is being invested by the founders in Bulgaria.

The idea of forming such a bank arose in August of last year, but it was necessary to wait for permission from the Central Bank of Bulgaria to put it into practice. Now that the approval has been obtained, the final decision is up to the Macedonian National Bank. The proposal and instruments of establishment have been forwarded to the National Bank of Macedonia for examination, and approval for opening the bank is expected in the near future, according to Vladimir Pendovski, director of United Consultants.

The basic aim of organizing the bank, again according to Pendovski, is to promote payment transactions between the two countries and full banking services. Balkanska Banka-A. D., Skopje, will perform all the banking operations and services performed by the other foreign exchange banks in Macedonia, with both economic organizations and with citizens. Operation of the bank will be supervised by the National Bank of Macedonia, and will be guaranteed by its founders, primarily the Balkan Bank in Sofia.

The Balkanska Banka will be an organization with high banking authority for foreign transactions; that is, the branches of Balkan Bank-Sofia in Ukraine and the United States (New York) will be placed at its disposal, along with the great number of corresponding banks opened in the majority of countries in the world.

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